

# THE MAGAZINE OF WALL STREET

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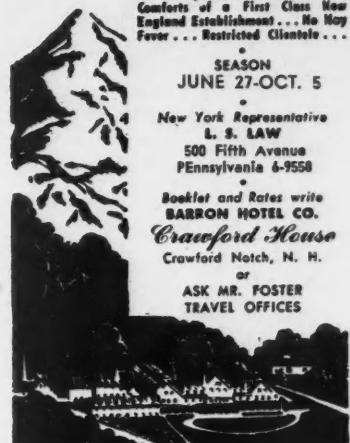
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### UNDERWOOD ELLIOTT FISHER COMPANY

The Board of Directors at a meeting held June 10, 1942, declared a dividend for the second quarter of the year 1942 of 50c a share on the Common Stock of Underwood Elliott Fisher Company, payable June 30, 1942, to stockholders of record at the close of business June 20, 1942.

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### THE WESTERN UNION TELEGRAPH COMPANY

New York, June 9, 1942

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A dividend of 50 cents a share on the capital stock of this company has been declared, payable July 15, 1942, to stockholders of record at the close of business on June 19, 1942.

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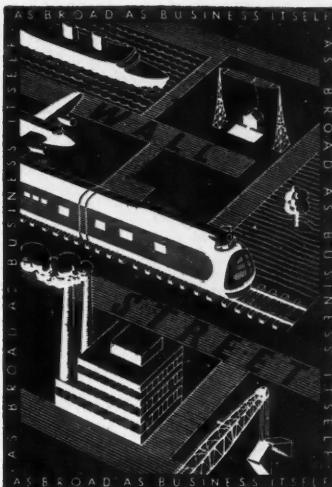


# THE MAGAZINE OF WALL STREET

LAURENCE STERN  
*Managing Editor*

C. G. WYCKOFF  
*Publisher*

C. HAMILTON OWEN  
*Investment Editor*



## The Trend of Events

**MONEY ISN'T ENOUGH...** While it is true that money is highly essential in winning a war, it is a fallacy to predict victory on the sole assumption we have the money and are spending it.

Harold D. Smith, budget director, revealed that American arms factories are operating at such a high rate of production that Government war expenditures have climbed to about \$1,000,000,000 a week. He feels certain we will "hit on the nose" the estimate of \$28,000,000,000 of war expenditures for the fiscal year and predicts spending of \$70,000,000,000 for the next fiscal year. This is a gigantic sum, overshadowing not only Axis spending, but that of our ally, Great Britain. But spending and producing arms isn't enough.

While the Civil War maxim "get there firstest with the mostest men" still holds good, it should be qualified by adding "and with the right weapons and best leadership." The campaign in Libya is a perfect example of this situation. Marshall Rommel has the most land equipment, the right kind of anti-tank guns and the ability to use them with the result that Britain's superiority in war production was unable to save Tobruk.

Our Navy Department recently admitted that the success of the Midway action was the fact that our air force spotted the enemy aircraft carriers first. Had the

Jap flyers been the first on the scene, the result may have been different. It takes good tools, the best that men's ingenuity can build, to win a war. But the best tools if they are not placed in proper hands when and at the very place they are needed, are of no value in winning a war.

Modern, mechanized warfare is costly. It is largely a conflict of motion where mistakes are detected almost immediately and result in swift defeat. Money can produce the weapons of war, but it takes more than money to bring the weapons to the right place and provide the ability for their maximum usage. Let us beware lest we lull ourselves to a false sense of security; fall under the hypnotic spell of billion dollar spending. Money won't win the war, it will only help.

**THE EXCESS PROFITS TAX...** While the House Ways and Means Committee is juggling the tax structure—whose careful enactment is vital to the future of competitive private enterprise—Donald Nelson, chairman of the War Production Board, warns the law makers that the 94 per cent excess profits tax, if not expanded, may run up production costs to a dangerous point.

Mr. Nelson's warnings appear to have borne fruit. While Congress is still debating the measure, for final

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS · 1907—"Over Thirty-Four Years of Service"—1942

approval by the whole body, the committee is studying a plan to grant a post war rebate of 14 per cent for plant rehabilitation purposes, bringing the net excess profits taxes to 80 per cent; precisely what industry is paying in England.

The committee agreed informally to act on a general excess profits tax relief provision, working in conjunction with the Treasury on that point. Indications are that some form of tax relief will be passed, softening the effect a 94 per cent excess profits tax would have upon business—especially such industries as aircraft and munitions manufacturers.

The warning by Mr. Nelson that a 94 per cent excess profits tax, without alleviation, will run up production costs, is true, but it fails to tell the whole story. American enterprise was founded and prospered under the competitive system. The ability of one individual or a group of individuals to earn more profits than another individual or group of individuals has been the incentive which made American business the power for national wealth it is today. Private enterprise creates wealth; Government enterprise spends it.

Members of the House Ways and Means Committee, aware of the fact that business is just as anxious to win the war as anyone else and that the question of war profits as profits isn't the sole consideration, knows full well that to place unsumountable barriers in the way of profitable business would be to ruin business, to rob it of its principal function and to kill the goose that lays the golden eggs.

If we win the war at the cost of too greatly weakening enterprise, we can never hope to win the peace. Congress must realize that now—not when it is too late.

**NO SHIRTS LOST . . .** While it is true that average corporate earnings and dividends are going to be less for the remaining duration of the war than they were last year or perhaps even in 1940, there is one aspect of the situation that has not had adequate recognition. On the whole, the war volume is "no risk" business. Profits will not be at boom levels, but neither will they be at deep depression levels. Among major companies, there will be no net losses.

That isn't all. Industry in the aggregate will emerge from the war with more and better plant facilities but without any significant expansion of capitalizations. The average intelligent business manager is well content to go through this crisis with modest profits—provided he is permitted to keep his shirt. Well, he is being permitted to keep his shirt. True, some corporations are pressed as regards liquid working capital but the general situation in this regard is by no means serious and is subject to remedy.

Few corporations will come out of the war with more debt than when it started. Many will have less. That will be true not only of rails, but of many industrials. For instance, Anaconda Copper recently retired the last of its funded debt, which was more than \$109,000,000 in 1933; and has the strongest cash position in its history.

If and when you get a cut in your dividend, you would

do well to take this side of it into account—not to mention the fact that thousands of men are risking their lives, many hundreds of whom have already made the ultimate sacrifice.

**FACING FACTS . . .** War changes most standards of value. The life and death struggle of a nation, especially if that nation is a democracy, does more than disrupt life's tenure. It is as some philosophers tell us "the great leveller."

Eric A. Johnston, president of the United States Chamber of Commerce, an organization whose very life has always been constructive conservatism, and whose criticism of the New Deal has been a watch word, in an address in Baltimore put his finger squarely on the situation when he said business would not permit another period of economic stagnation such as followed the last war. Private enterprise, he said, must take cognizance of social as well as economic needs. It is a matter of business realizing that we have undertaken social responsibilities, of business providing employment for a majority of the workers when the war ends. Or else, he warns, the Government will do it.

Expressing confidence in the ability of American industry to do the job, Mr. Johnston explained that we will have the largest plant capacity in our history, plus greater sources of raw and synthetic materials and the largest number of skilled workers ever available to any nation. "To use this vast store of machine power and manpower," he said, "we must have a new order of co-operation between government, management, labor and agriculture. A new conception of management of the problems of government will be necessary, and a new understanding by government of the problems of management. We're going to have to have statesmen in the true sense of the word in business and in labor and in agriculture and in government."

These statements can scarcely be successfully contradicted. They are largely generalities, and they are not wholly original. Yet, their extreme value lies in the fact they were uttered, in all sincerity, by the president of the United States Chamber of Commerce. Those words from the lips of a politician, a labor organizer, a farmer, or even an individual businessman would probably pass unnoticed. But coming from Mr. Johnston they are fraught with great significance. They are the words of authority—industrial and business authority. Industry takes its cue, to a large extent, from the United States Chamber of Commerce and from the Association of Manufacturers.

If business wants to make sure that politics will forget business, it is up to business to forget politics. It is highly important to our future, to the winning of the peace, that business take heed of Mr. Johnston's advice and prepare now to use the tools—machinery, plant capacity and skilled labor—which the war has thrust into its hands—use those tools to keep private enterprise alive and raise the standard of living here and not talk of post war "depressions" and possible loss of private enterprise.

# As I See It!

BY CHARLES BENEDICT

## MIDSUMMER CRISIS OF 1942

THE outcome and duration of this war depend pretty much on events this summer. At the moment the news from the various fronts is far from satisfactory. The reports from Africa are particularly disturbing because they mean that the British are not only in danger of losing control of the Mediterranean, but that their entire position in the Middle East has been very seriously weakened militarily and psychologically. The British have never had very strong forces in this theatre of the war. Hitler would have succeeded in breaking through a long time ago if Russia had not blocked the way. And unless Britain can hold Egypt the results might be very serious indeed as the British maintain only limited forces in Syria and a token army in Irak.

It seems the British have miscalculated again and this time disastrously—with the Germans having counted on a repetition of the same old mistakes and Rommel fully prepared to take advantage of the situation. For it is evident that the British did not expect a major offensive in the desert this summer and had either withdrawn part of their forces or diverted reserves elsewhere. Nor had Britain counted on the new tactics employed by Rommel, a technique developed as a result of Nazi experience with tank warfare in Russia. It is too bad Allied observers are not permitted on the Russo-German front where they can gain invaluable experience in combatting Nazi strategy and tactics.

From the various reports there is every evidence that Rommel shrewdly outmaneuvered the British in one of the most vital battles of the war. The effect of this defeat may be far reaching as it comes at a time when China is being increasingly hard pressed by Japan.

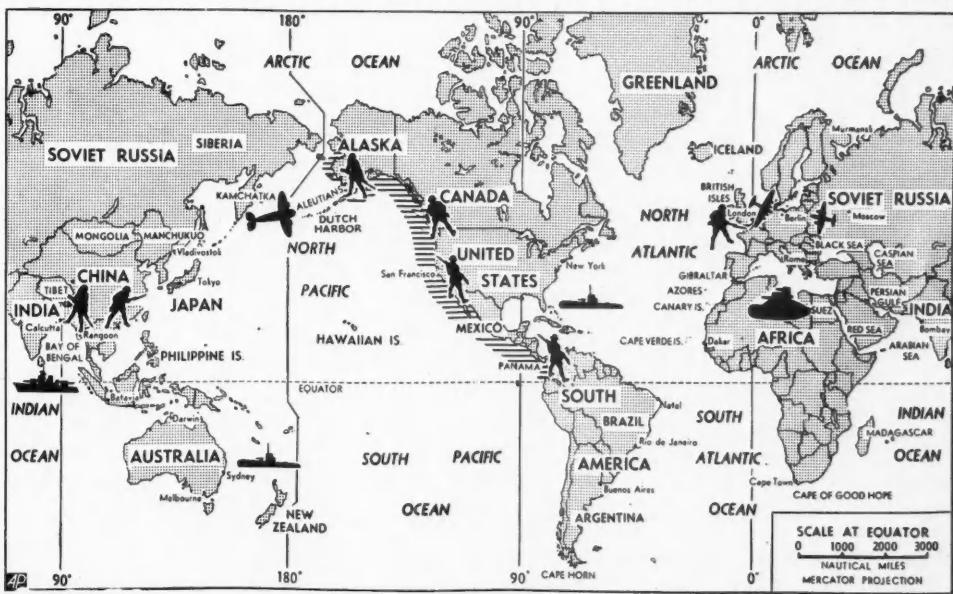
an, and when India is turning her back on British pleas.

The Nazis are employing every ounce of their strength in an attempt to break through between Rostov and Sevastopol toward the oil regions, in the hope of effecting a juncture with Rommel's Libyan army. The meager British forces will be attacked by land, by sea and by air, and even if the Russian lines hold, a victory by Rommel would clear the way to the oil fields and enable him to turn around and attack the Russian troops from the rear, in an attempt to crush the Red army in the Crimea and invade the Soviet Republic from the South.

Should Rommel succeed, the British blockade will have been broken, giving Germany access to all the oil, foodstuffs and raw materials she so urgently needs.

At the same time the Nazis would secure an outlet to the Indian Ocean and the Pacific with all that implies.

**In the Pacific**—There should be no belittling of the danger to us of Japanese occupations of Attu and Kiska in the Aleutian Islands. For Japan's attack on Midway and Dutch Harbor suggests she has almost finished in China and is ready to take on new adventures. As matters stand now, it is not (*Please turn to page 308*)



# Outlook For Market This Summer

**Middle East War Contingencies and Possible Nearby Japanese Moves Constitute Powerful Obstacles to Renewed Market Rise at Present. Pending Further Test of the Market's Ability to Hold Above the April Low, We Would Defer Purchases.**

BY A. T. MILLER

*Summary of the Fortnight: Although the industrial average spurted to a new rally high at the middle of last week, the performance attracted more sellers than buyers. On the whole, technical action since our last previous analysis reflected weakening of upside momentum, making the market somewhat vulnerable to the disquieting war news which has eventuated over this week-end.*

Two weeks ago, with "peace stocks" at rally levels which reflected a rather puzzling degree of investment and speculative confidence in the summer war contingencies, we took occasion in this space to sound a note of caution and to remind you that, after all, we had not yet won the war.

"Coming events of this crucial summer," we said, "may very well strengthen this incipient confidence—but it must be admitted that the war has not yet turned in our favor in any really decisive manner. The possibility of periods of considerably less favorable war news cannot be dismissed from the reckoning."

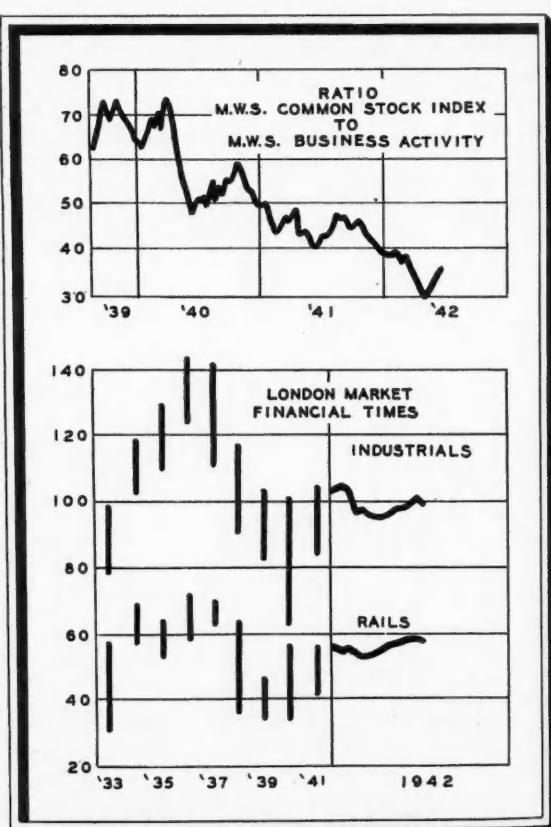
At that time the tone of British reports from Libya continued generally hopeful, but even the censored versions of the course of the fighting indicated that things were not going well. Even so, the scope of the British reverse—and especially the speed of the disaster to Tobruk announced on Sunday—came as a very disagreeable surprise.

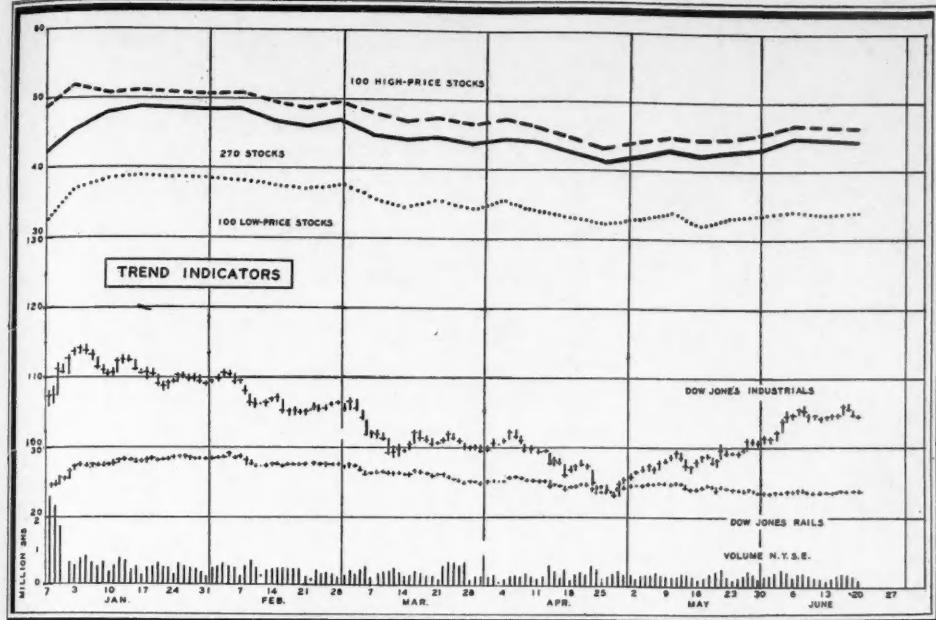
As this is written the stock market is undergoing a general and fairly sharp reaction. Even without this bad war news, we had been making mental allowance for a possible technical reaction—perhaps cancelling from a third to two-thirds of the rally of approximately 13 points in the Dow-Jones industrial average from the low of late April. Now, of course, the underlying trend is subjected to a very important test. If the current reaction halts within the one-third to two-thirds limits—that is, within the range 102-97, Dow-Jones industrial average—such action would supply rather convincing evidence that the April lows discounted the worst probable war and tax contingencies.

In case this downturn begins to show tentative signs of petering out over the early future, we would be in no hurry to jump to bullish conclusions. We think it probable that the full test of the market's fortitude will have to be judged over a period of several weeks at least, rather than in a matter of days. Therefore, we advise against purchases at this time.

It would be different if the notably quick fall of Tobruk—not of vital importance in itself—could be taken as representing merely the successful end of a secondary German offensive. Unfortunately, that does not seem to be the case. Rommel's campaign and the increasingly dangerous Nazi pressure on Sevastopol—only good Russian naval base on the Black Sea—indicate that the Germans, in their now familiar pincers technique, are aiming at much bigger game: to wit, to crush the backbone of the entire British position in the Middle East.

At stake are Alexandria, key to British naval power in the eastern Mediterranean; Suez; Syria, Iran, Iraq and the Caucasus. We will not lose the war in these





indicated German moves, but their outcome will be of the utmost importance in relation to the duration of the war and the final proportions of the task confronting us and our Allies. Thus, it need hardly be emphasized that further developments in the Germans' Middle East offensive—together with probable additional offensive moves by the Japanese—will be by far the most dynamic stock market influence over the coming weeks. We reason that at best the interim uncertainty probably will prevent any significant market advance and that at worst coming war news may have in it the makings of important market decline.

It remains to be seen whether unofficial reports of Churchill's confidence in the British strength in Egypt—as contrasted with the undeniable weakness displayed at the Libyan outposts—will prove sufficiently well-founded. In any event, we can hardly get a convincing answer except over a period of weeks—good reason to avoid making snap judgment on day-to-day technical action of the market over the near term.

The backbone of the market rally since April has, of course, been provided by the "peace stocks" and the "conversion stocks"—with the "war babies" of 1939, now "war orphans," lagging badly. Yet as this is written, the latter stocks seem to be under just about as much pressure, relatively speaking, as the two first groups. We can't bank on a psychological reversion to the "long war" theme converting these recent laggards into market leaders, or otherwise sustaining the market average. Investors are fully aware by now that a long hard war would not be really bullish on any stock and would be bearish for most.

Let us emphasize that we are not making any predictions as to the duration of the war. We prefer for the present to wait more or less patiently and let the market "tell its own story." It is possible that the basic war outlook—due to our mounting arms production and to the continuing strength and fine morale of the Rus-

sians—is more favorable than current bad news makes it appear on the surface. It is quite possible that the more hopeful investment consensus developed in recent weeks is not a mere flash in the pan and that it rests on a foundation—not now clearly visible in its details—that will prove to have been solid. But, confronted with so many imponderables, what is really pertinent to you as investor or trader is not what the military experts think but what buyers and sellers of securities

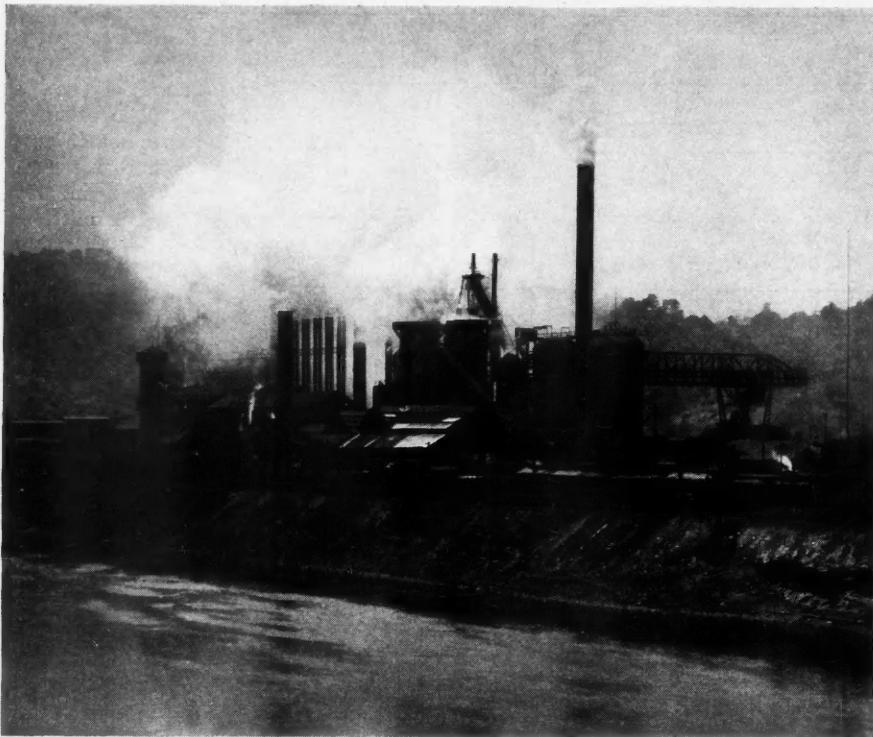
think, hope or fear—and that will be perfectly mirrored in the stock market. All we can read from the market record today is a reaction of relatively moderate shock and keen disappointment. Whether this will develop into something of more than short-range trend significance remains to be seen.

As we have previously stated, our most consistently accurate measures of the "intermediate trend" turned up in late April and up to this writing have not been reversed. Since it has been our tentative assumption that April saw the lows for the year or longer, we have rather welcomed a reaction test on technical grounds alone. Only through reaction, after rise over a period of weeks from a low point, can we get the "proof of the pudding" as regards the real strength of the underlying market position. We happen to be optimistic on the longer range view and we think the odds are that the April low of 92.92 in the industrial average will not be broken—but such opinions are not particularly pertinent in the present setting. Since a factual test of the market's fortitude has begun, there is neither need or practical sense in acting on assumptions—hopeful or not.

We regret the necessity of having to devote so much of these analyses to war contingencies. But no consideration affecting market values can be discussed except in relation to the war. Take the matter of taxes. Congress will not frame them in a psychological vacuum. These gentlemen, like the rest of us, read the war news daily; and their attitude toward taxes and all other wartime "controls" is necessarily influenced thereby.

If the war goes poorly this summer, investors must reason that it is dubious whether the pending tax proposals—especially the 40 per cent combined normal and surtax rate—can safely be regarded as the probable maximum for the war period.

*Conclusion: We favor deferring purchases and maintaining a conservative reserve of cash.*



Ewing Galloway

## As Business and Markets Enter The Second Half of the Year

BY GEORGE W. MATHIS

**T**HE first half of the crucial year 1942 has seen war production rise "over the hump"—though peak output is still months away; the progressive stoppage of production of consumer "hard goods;" a large further rise in national income; the foundation built for a heavy increase in corporate and personal taxes; and the extension of war-time controls to John Q. Public itself, as represented by selective rationing, imposition of inclusive retail price ceilings, Administration pressure for wage stabilization and preliminary moves pointing to the mobilization and allocation of labor.

In short, during the past six months, we have rapidly gone a very long way toward really effective mobilization of our huge resources for making war. At least where it counts most in relation to our war potential, the period of fumbling is over. We are on our way. The most important bottlenecks now confronting us are shortages of ocean shipping and of materials—especially steel. The shipping problem can and will be solved, though it will take many months of progressively rising effort to do it. Of the two cardinal ob-

stacles, the raw materials difficulty is much the more formidable. Steel is obviously most basic of all in production of ships, tanks, ordnance, etc. Rapid expansion of steel capacity and output—already at record levels—is a physical impossibility. With Herculean effort—extending also to pig iron and collection of scrap—it might be possible to boost output perhaps 10 per cent in the next year.

Reflecting capacity limitations, which can only be raised gradually from month to month, the rate of gain in the country's total production has naturally tended to moderate. The Reserve Board's seasonally adjusted index advanced throughout 1941 at an average monthly rate of, roughly, 2-1/3 points. Since the turn of the year, with June estimated, it appears to have been about 1-1/3 points per month.

Total civilian production, quite aside from "hard goods," is declining at present, due largely to abrupt curtailment of forward buying by wholesalers and merchants following introduction of retail price ceilings and warnings of possible Federal inventory regulation.

The lull in consumer goods new orders may last two or three months more. Meanwhile increased arms production may or may not fully offset this influence. Thus, little or no rise in total production is indicated for the near term.

As pointed out before, shortage of materials is the key factor that will restrain second half-year (and also 1943) expansion in over-all industrial output. The technical progress in fabrication of metal goods is running and will continue to run ahead of primary output of metals. Thus the end of the year will do well to find total industrial output more than 4 or 5 per cent above the June level.

Allowing for seasonal adjustment, retail trade in the second half-year will be substantially lower than in the first half; and physical volume will be less than in the second half of last year. The biggest factor pulling down total trade volume is increasing non-availability

ofists believe this is merely a "honeymoon period" of price control. They point to certainty of further substantial increase in the already record-high volume of the public's money income on the one hand, and certainty of growing shortages of goods on the other hand. They are dubious over the matter of wage stabilization. They know that the prospective taxes falling on individuals can make but a relatively moderate dent in the "inflation gap." They are uncertain as to the prospective volume of voluntary savings. Putting all this together, they foresee a powerful consumer demand pressing relentlessly upward against the price ceilings—and a threat that the ceilings may give way by late autumn or winter unless more rigorous anti-inflation measures—chiefly compulsory savings and effective wage stabilization—are adopted.

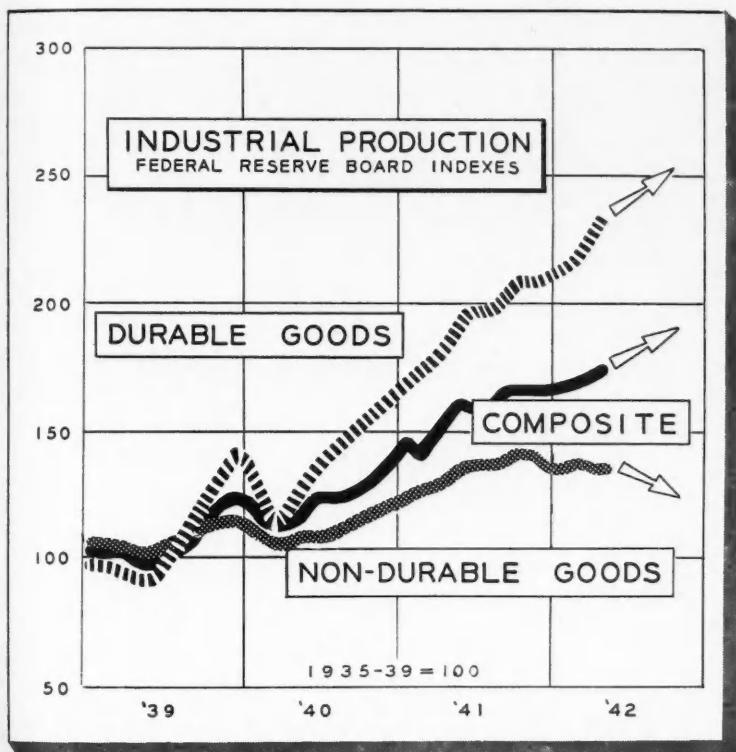
The statistical approach to this problem—so many billions of consumer purchasing power on the one hand,

such and such a total supply of civilian goods on the other—cannot provide an acceptable answer. Already there is a huge total of dollars in consumers' hands which would normally be flowing into purchase of new automobiles, new homes, tires, gasoline and other things which either are not now available or available in reduced degree. The "inflation-gap" boys argue that such money will be diverted to other goods—perhaps to shirts or shoes, liquor or what not. Certainly this is partly true, but the real question is one of proportions. While it can't be measured now, I believe the proportions of the probable inflationary shift in normal consumer spending habits have been greatly exaggerated.

It can be safely assumed that the average man or woman handles his or her family budget in a reasonably prudent, thrifty manner. Suppose, for example, this typical person has the cash in hand for a non-available automobile. In my opinion, he or she will not go hunting around for something else to buy. On the contrary, the money will be banked or put in War Bonds against the day when it can be spent for a needed automobile.

In any event there is no serious danger in giving present control methods a reasonable test. If they are not adequate, and if the volume of voluntary consumer saving is not large enough, we might have to come to a compulsory saving system next winter. Meanwhile, the commodity price and cost of living inflation threat for the second half-year does not seem dynamic to me.

It is my belief that during the first four months of the year the stock market—speaking in terms of the broad average—completed either all or substantially all of its long deflationary adjustment to high war taxes, price control, disruption or conversion of civilian industries, and the series of major military reverses for the United Nations. It must be conceded that the last-named item involves conjecture and continuing uncertainty. What we can tie to is our own fast-mounting



of consumers' durable goods of all kinds. In addition, the substantial sales volume represented by gasoline and maintenance of automobiles has already been greatly reduced in the rationed area, and this curtailment may become national.

Qualified retailing experts now calculate that the year's department store volume will be 7 to 9 per cent less than last year, wholly due to shortages of merchandise which, of course, center mainly in "hard goods."

In my opinion, the prospect is for a high degree of commodity price stability for at least the next three to five months—and perhaps beyond that. I say "perhaps beyond that" because the longer range price outlook is more than a little bit conjectural. Some econ-

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military, naval and air power and the assurance that it will achieve eventual victory. On the evidence of a full year, there is valid basis for optimism that when autumn comes Hitler will still be short of his objective of complete victory over Russia; and, of course, nowhere near mastery of England, much less the world.

But it would be very foolish at this time to be cocksure about the outcome of the German and Japanese offensives this summer—or their possible effects upon the securities markets. The present disconcerting successes of the Germans in Libya—which may or may not develop quite serious strategic importance—don't give much support to the fatuous assumption of some speculators and investors in recent weeks that the war was already virtually as good as won.

We are not going to lose the war this summer. That is not the question. The question is whether the summer's fortunes of war will bring the United Nations' final victory considerably nearer in point of time—or push it substantially further into the unknown future. You will need but a moment's reflection to realize that the answer to this question will necessarily be by far the most dynamic influence on the Government's tax policy, extension of present economic and financial controls, the "sentiment" of investors and speculators, the general trend of the market, the group variations in the market.

I can't give you the answer. Only events can do so. The market for some weeks has been registering a consensus that the worst has been seen and that better war news is ahead—not too far ahead. Such a consensus may prove right. It usually is—but not always or inevitably.

The next few weeks may be the most crucial of the year. The Russian summer is short. Time is running against our international enemy No. 1 and also against No. 2 on the other side of the world. If the Germans don't get started on something big in Russia before mid-July at the latest, that would imply that it's because they can't. The only other possible implication would be the possibility they had decided on some major and surprising shift in grand strategy.

Since so much is at stake in the early future, a combination of caution and close alertness is the only atti-

## CHANGES IN M. W. S. STOCK GROUPS JAN. 1, 1942-JUNE 13, 1942

### INCREASES

44% TIRE AND RUBBER

29% RADIO

25% BUSINESS MACHINES

14% FARM EQUIPMENT

2% AIRLINES

.6% UTILITIES

tude I can recommend at this writing to investors. If you think there is a better than even chance that within a relatively few weeks you will have a more solid foundation upon which to base your decisions to buy, sell or continue holding specific securities—why not wait and leave the guessing (or the taking of the recent market rally on faith) to the speculative-minded?

There is only one bit of *general* advice that seems pertinent. It is this: Common stock investment should avoid industries or companies for which substantial earning power and ability to pay dividends is wholly or largely a phenomenon of war activity. Only industries in a position to do not too badly in war, and for which substantial normal or peace-time earning power is a reasonable assumption, can qualify under present conditions as suited to prudent equity investment.

In considering the varying prospects for the more important individual industries, as we shall do in the rest of this article as briefly as possible, it should be kept in mind that industrial prospects are not the same thing as market prospects and by no means the sole consideration of investment merit or lack of merit. For example, rail equipments have excellent volume prospects for the next half-year and, indeed, for the duration of the war activity; and their earnings, despite high taxes, will be better than they were in most of the decade before the war began. But that doesn't make these stocks good investments.

What you are really concerned with, then, is the prospect of individual industries *from an investment point of view*. Naturally, in not a few instances there will be much room for difference of opinion. The bird's-eye opinions presented below have been carefully reasoned, but are not set forth dogmatically. Where we encountered doubts in our own mind, the choice was to lean to prudent investment principles and to avoid speculative assumptions.

**AIRCRAFT MANUFACTURING**—Large volume and substantial earning power are assured for an indefinite time. Industry will emerge from the war with improved plants, probably a good liquid financial position, no swollen capitalizations. Prospect for dividends is restricted by present working capital needs and high taxes. Post-war volume prob- (*Please turn to page 305*)

## CHANGES IN M. W. S. STOCK GROUPS JAN. 1, 1942-JUNE 13, 1942

### DECLINES

24% AIRCRAFT

20% SHIPBUILDING

13% COPPER AND BRASS

12% STEEL AND IRON

11% DEPARTMENT STORES

10% CHEMICALS

# **Wisest Investment Program Today**

**. . . For Income  
. . . For Capital Appreciation**

BY J. S. WILLIAMS

rs. If within foundations sell or it and market as per should l earn wholly or industries which a rea ditions more im the rest kept in thing considera example, for the war will be ore the s good e pros point of e much opions but are doubts investi options. volume an in ear with al posi dividends and high (e 305)

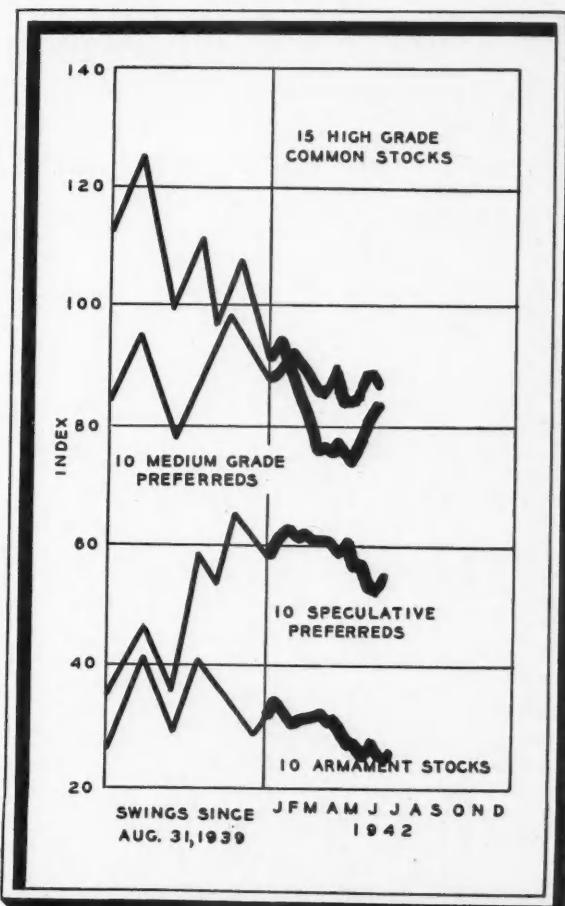
THE first step in formulating a sound investment program for the individual today is to arrange a definite schedule to provide for the regular weekly, monthly or quarterly purchase of United States War Bonds to the fullest possible extent of available funds—perhaps even a little more. Not only is this the patriotic duty of every investor but it makes a lot of practical sense viewed from any investment standpoint. War Bonds are immune to market fluctuations and afford a yield more attractive than that offered by comparable corporate bonds.

Aprogram of War Bond purchases should appeal particularly to those timid investors, reluctant to risk their funds in any type of security because of the many uncertainties which assail their judgment at the present time. There is one thing, however, which is certain and that is the ability of the United States to fulfill all of its financial obligations to its citizens. If any one has any doubts about this, I wish to assure him that corporate securities, or even cash, would offer no haven of protection should anything happen to jeopardize the ability of the United States to pay off 100 cents on the dollar. For good and sufficient fiscal and economic reasons, previously outlined and discussed in these columns, I cannot admit that this is even a remote possibility.

For practical purposes there is, of course, a limit to the extent which many investors are able to commit their capital and savings to War Bonds—just the same as there is a limit to the extent that a wage-earner or salaried employee can set aside a part of his salary for the same purpose. Not a few investors are either wholly or partially dependent upon the interest and dividends from their investments to meet their living expenses. They have been accustomed to receiving 5 or 6 per cent average return annually. To cut this in half, for example, would in many cases entail unnecessary hardship. A 100 per cent diversion of funds to a war bond program would require the acceptance of a substantially lower return. But at the same time an investor unwittingly might be forced to accept an unwelcome reduction in current investment income. In a portfolio largely committed to common stocks some reduction in income over the coming months seems practically inevitable. This is likely to be the experience of even the most skillful—or fortunate—investor. The problem

then is to restrict these reductions to a reasonable minimum, through considered revision of the more vulnerable type of holdings.

The term "vulnerable" as it applies to common stock dividends is used in a relative sense. To the extent that the earning power and dividends will be affected by pending higher corporate taxes, costs, increased working capital needs and other restrictions born of the war



effort, all common stocks are in a vulnerable position. The difference lies in the degree of vulnerability.

This degree of tax vulnerability will not only vary widely between different industries but also between different companies identified with the same industry. The first step in making a choice of the best situated and most promising common stocks is the determination of those industries which appear to have the best relative earnings prospects in the present setting. To a greater or lesser extent all industries are subject to several major influences, aside from taxes. These include war work conversion problems, priorities and the difficulty of obtaining adequate raw materials, and price control measures. With business activity and industrial production at record levels, the prospects of component industries are to a considerable degree dependent upon the impact of these several influences.

Another point which would be well to bear in mind is that some industries have for some months now been operating at capacity and the opportunity for further expansion in sales and earnings is limited. The steel industry is an example. Such industries need not necessarily be arbitrarily excluded from common stock selections at this time, but the choice of issues is limited to the shares of those companies with prospects seemingly better than those for the industry as a whole.

Probably at no time has the problem of estimating dividends and earnings been less complicated than at the present time. Oddly enough this condition has been brought about by the nature of pending tax legislation. The House Ways and Means Committee's corporate tax proposals, which appear likely to be enacted in substantially their present form, levy a combined normal and surtax of 40 per cent on exempt profits and a 94 per cent

rate on excess profits. In effect therefore earnings this year for most companies will be frozen at about 60 per cent of a company's excess profits credit. Beyond that point a company will retain only 6 cents out of every \$1 of earnings left after normal and surtaxes. Using this as a base for current estimates, the possible margin of error in most cases would not be greater than 6 per cent, or hardly enough to alter dividend prospects and price-earnings ratios.

### Pending Corporate Taxes

Exceptions to this general rule would include those companies identified with the extractive industries such as oil, mining, etc., because estimates in the case of these companies could be thrown out of line by depletion allowances. Some companies will also be entitled to a "growth" allowance in computing their tax base.

The effect of these tax proposals on a company experiencing lower earnings this year will be to cushion the decline in net earnings in relation to the decline in pre-tax earnings, for those companies in the upper tax brackets such as General Motors and Chrysler, for example. The decline in the company's net would be 6 cents for every \$1 drop in pre-tax earnings, while the Government would lose 94 cents.

Of particular note is the fact that the proposed taxes will hit with unusual severity the shares of those companies with a sizable preferred stock capitalization. A company like Chicago Pneumatic Tool, for example, which last year showed over \$6 a share on the common stock, would have been barely able to cover dividends on two classes of preferred stock outstanding had the proposed taxes been in effect. As a general rule, at least from the standpoint of tax vulnerability, the shares of a company with a single-stock capitalization have the advantage.

As a general rule also the investor would do well to avoid including too many "leverage" common stocks among his holdings. In normal times the factor of leverage, imparted to a common stock by the existence of preferred stock and funded debt outstanding and with a prior claim on earnings, has the effect of producing a very substantial gain in per share earnings with only a comparatively moderate increase in gross and net, once fixed charges and preferred dividends have been covered. When earnings decline the effect of leverage on per-share earnings is equally pronounced—but in reverse. Higher taxes in many cases will mean lower earnings and, as was seen in the case of Chicago Pneumatic Tool, leverage will place the common stockholder at a disadvantage.

It should be noted that not a few companies in recent months have found it necessary to undertake new financing, in the form of bank loans, bonds or preferred stock, for the purposes of enlarging working capital. Such financing could have the effect of altering appreciably the leverage position of common stock.

As this is written there appears to be a growing sentiment in Congress for making some provision for a post-war refund of excess profits taxes. In England excess profits are taxable at 100 per cent, of which 20 per cent, however, is set aside, returnable to the company after the war. If some provision of this sort is

### Selected Fixed Income Securities for Income

#### Medium Grade Bonds

| Issue                         | 1942  |       | Current |       |
|-------------------------------|-------|-------|---------|-------|
|                               | Price | Range | Recent  | Yield |
|                               | High  | Low   | Price   | %     |
| Alleghany Corp. 5s, 1944      | 92    | 78    | 83      | 6.02  |
| Allied Stores 4½s, 1951       | 104   | 100½  | 101     | 4.45  |
| Amer. International 5½s, 1949 | 101½  | 93    | 96      | 5.73  |
| Canadian Pacific 5s, 1954     | 91½   | 81½   | 91      | 5.49  |
| Certain-teed Pdts. 5½s, 1948  | 88½   | 80%   | 88      | 6.25  |
| Consolidation Coal 5s, 1960   | 90    | 80    | 88      | 5.68  |
| Long Island R. R. 4s, 1949    | 98    | 92    | 95      | 4.21  |
| United Drug 5s, 1953          | 97½   | 90¾   | 94      | 5.32  |
| Utah Pwr. & Lgt. 5s, 1944     | 102   | 93    | 96      | 5.21  |

#### Preferred Stocks

|                               |      |      |     |      |
|-------------------------------|------|------|-----|------|
| American Bank Note, \$3       | 47   | 38½  | 43  | 6.98 |
| Armour Co. (Del.), \$7        | 111½ | 107½ | 110 | 6.48 |
| Atlas Corp., \$3              | 50½  | 46½  | 48  | 5.94 |
| Columbia Pictures, \$2.75     | 28%  | 24   | 28  | 9.81 |
| Distillers Corp.-Segrams, \$5 | 79½  | 70   | 79  | 6.33 |
| Firestone Tire & Rubber, \$6  | 98   | 87½  | 97  | 6.19 |
| Houdaille-Hershey A, \$2.50   | 34   | 27   | 33  | 7.58 |
| Pure Oil, \$6                 | 101½ | 90½  | 92  | 6.52 |
| Radio Corp. of Amer., \$3.50  | 54½  | 46½  | 52  | 6.73 |

forthcoming it will mitigate the necessity for establishing large reserves for post-war contingencies, a policy which many companies have adopted. Such reserves are set aside out of earnings; they are taxed as earnings; and per-share results are reduced by the amount of such reserves, although actually they remain with the company as the stockholders' equity. Should tax relief permit the elimination or reduction of such reserves, earnings would show up in a more favorable light and give greater support to dividends.

Reverting to the choice of industries having the best prospects at this time, there appears to be little chance that investors will go far wrong in avoiding those indus-

tries which are now well in the van of the war effort but which would face a doubtful outlook in the post-war years. Typical of such industries are shipbuilding, aircraft manufacture, railway equipment, and machine tool. There are, to be sure, other industries which are devoting all or nearly all of their facilities to war work now, but they are converted industries which would likewise play a prominent role in a peacetime economy. To name a few—automobile and automobile accessory manufacturers, electrical equipment, chemical, farm equipment, building supply manufacturers and distillers. There is another group of industries which have no direct stake in the war industry but which nevertheless are prospering as a result of substantially increased public purchasing power. In this group are included motion picture producers, leading variety and grocery chains and several divisions of the food processing industries.

## Selected Common Stocks for Current Investment

### Income Issues

| Issue                     | Earned<br>1941<br>\$ | Earned<br>1st 3 mos.<br>1942<br>\$ | Earned<br>1941<br>\$ | Divs.<br>Paid<br>1941<br>\$ | Latest<br>Div. | 1942<br>High | 1942<br>Low | Recent<br>Price |
|---------------------------|----------------------|------------------------------------|----------------------|-----------------------------|----------------|--------------|-------------|-----------------|
| Acme Steel.....           | 9.65                 | 1.95                               | 2.44                 | 5.00                        | 1.00           | 48 1/4       | 42          | 42              |
| Amer. Smelt & Ref.....    | 5.59                 | 1.35                               | .95                  | 3.50                        | 0.50           | 43           | 35 1/2      | 38              |
| American Tobacco "B"..... | 4.58                 | NA                                 | NA                   | 4.50                        | 0.75           | 50 1/4       | 34 1/2      | 46              |
| American Viscose.....     | 3.92                 | 0.66                               | 0.72                 | 1.00                        | 0.50           | 27 1/2       | 22          | 27              |
| Inland Steel.....         | 9.08                 | 1.55                               | 2.13                 | 5.00                        | 1.00           | 74 1/2       | 54          | 59              |
| Loew's.....               | 16.15                | 2.91(H)                            | 2.80(H)              | 3.00                        | 0.50           | 42 1/2       | 37          | 42              |
| Owens-Illinois Glass..... | 3.40                 | 3.57(J)                            | 2.74(J)              | 2.50                        | 0.50           | 54           | 43 1/4      | 49              |
| General Foods.....        | 2.57                 | 0.49                               | 0.83                 | 2.00                        | 0.40           | 40 1/2       | 23 1/4      | 32              |

### Price Appreciation "Peace or War" Stocks

|                              |       |        |        |      |      |        |        |        |
|------------------------------|-------|--------|--------|------|------|--------|--------|--------|
| Borg Warner.....             | 3.20  | 0.80   | 0.69   | 2.00 | 0.40 | 24     | 19 1/4 | 23     |
| Chrysler Corp.....           | 9.92  | 1.13   | 2.20   | 6.00 | 1.00 | 62 1/2 | 43 1/2 | 62     |
| Dewe & Co.....               | 14.03 | NA     | NA     | 2.00 | None | 24 1/4 | 18 1/2 | 23     |
| Frusheuf Trailer.....        | 4.61  | 0.90   | 1.01   | 1.40 | 0.35 | 19     | 15 1/2 | 17     |
| International Harvester..... | 15.87 | NA     | NA     | 3.00 | 0.50 | 52     | 40     | 47     |
| Johns-Manville.....          | 6.66  | 0.77   | 1.73   | 3.00 | 0.75 | 62 1/2 | 50 1/2 | 56     |
| Masonite.....                | 13.56 | \$1.30 | \$1.11 | 1.50 | 0.25 | 27 1/2 | 22 1/4 | 26     |
| National Distillers.....     | 3.47  | 0.52   | 0.39   | 2.00 | 0.50 | 22 1/4 | 17 1/2 | 22 1/4 |
| Paramount.....               | 2.97  | 0.94   | 0.89   | 0.90 | 0.25 | 15 1/2 | 11 1/4 | 15     |
| Underwood Elliott Fisher.... | 5.10  | 0.54   | 0.86   | 3.50 | 0.50 | 36 1/2 | 28 1/2 | 36     |

### Post-War Stocks

|                               |         |         |         |          |       |         |        |     |
|-------------------------------|---------|---------|---------|----------|-------|---------|--------|-----|
| American Cyanamid "B".....    | 2.42    | 0.38    | 0.39    | (a) 1.85 | 0.15  | 41 1/2  | 28 1/2 | 33  |
| American Can.....             | 6.45    | NA      | NA      | 4.00     | 1.00  | 69 1/2  | 56 1/2 | 69  |
| Beech-Nut Packing.....        | 6.19    | 1.59    | 1.55    | 6.25     | 1.00  | 110 1/4 | 64     | 84  |
| Coca-Cola.....                | 6.78    | 1.05    | 1.49    | 5.00     | 0.75  | 79 1/4  | 56 1/2 | 78  |
| Commercial Investment Tr..... | 4.78    | .99     | 1.17    | 4.00     | 0.75  | 27 1/2  | 20 1/2 | 27  |
| Dow Chemical.....             | 6.58(b) | 4.88(c) | 4.92(c) | 3.00     | 0.75  | 124 1/4 | 95     | 114 |
| Goodyear Tire.....            | 4.68    | NA      | NA      | 1.375    | 0.375 | 17 1/2  | 10 1/4 | 17  |
| Holland Furnace.....          | 4.65    | d0.28   | d0.25   | 2.50     | 0.50  | 22 1/2  | 14 1/4 | 22  |
| Montgomery Ward.....          | 4.14(e) | 0.61(k) | 0.47(k) | 4.00     | 0.50  | 31 1/2  | 23 1/2 | 29  |
| Phillips Petroleum.....       | 3.92    | 0.76    | 0.74    | 2.25     | 0.50  | 41 1/2  | 30     | 37  |
| Procter & Gamble.....         | 4.21(f) | 2.90(g) | 2.55(g) | 3.00     | 0.50  | 52      | 42     | 48  |
| Sears, Roebuck.....           | 6.35(e) | NA      | NA      | 4.25     | 0.75  | 57      | 43 1/2 | 54  |
| Texas Co.....                 | 4.77    | 0.73    | 0.61    | 2.50     | 0.50  | 39 1/4  | 30     | 35  |
| Union Carbide.....            | 4.53    | 1.01    | 1.14    | 3.00     | 0.75  | 74 1/4  | 58     | 66  |
| U.S. Rubber.....              | 4.86    | NA      | NA      | 2.00     | None  | 18 1/2  | 13 1/2 | 18  |

<sup>a</sup> Year ending Oct., 1941. <sup>b</sup> Year ending Aug., 1941. <sup>c</sup> 7 mos. to Mar., 1942. (a) Includes \$1.25 paid in 5% pfd. stock. (b) Year ending May, 1941. (c) 9 mos. ending Feb. (d) Deficit. (e) Year ending Jan., 1942. (f) Year ending June, 1941. (g) 9 mos. ending Mar., 1942. (h) 28 weeks to Mar. 12. (i) 12 mos. to Mar. 31. (k) 3 mos. to Apr. 30. (NA) Not available.

### Post-War Planning

As a practical matter the present would seem to offer an excellent opportunity to introduce a little post-war planning into investment portfolios. In advocating such a policy, I am not unmindful of the many complex problems which will inevitably arise in the years immediately following the end of the war. Statesmen and industrialists alike, however, have given concrete evidence that they are fully aware of their responsibilities and there seems to be a real basis for hope that the post-war era may well be one of genuine peace and prosperity.

For nearly two years stocks declined steadily in anticipation of all the wartime restrictions and uncertainties. At the present time we are experiencing all, or nearly all, the restrictions likely to be imposed. The war is not ended by any means but daily the forces of victory are swinging toward the side of the United Nations.

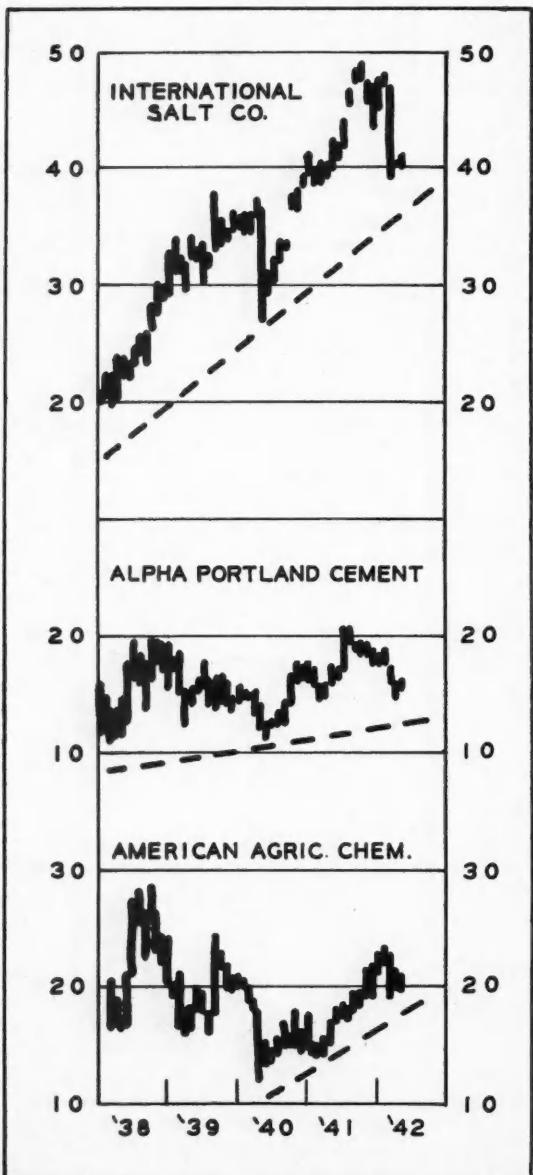
In recovering about 15 per cent from their wartime lows, industrial common stocks have recognized to a moderate degree the more hopeful aspects of the outlook. Yet many of the best common stocks are still obtainable at prices which promise a generous yield, even after making full allowance for a possible reduction in dividends, and the possibility that current values will appear quite conservative in relation to post-war prospects seems sufficiently supportable to warrant placing some portion of funds in those issues which now seem likely to fare best in a post-war economy. Certainly at prices only moderately above war lows, the risk in such an undertaking appears worthwhile in relation to potential results.

Obviously a common stock policy such as outlined here should be undertaken only on a small scale, if at all, by the investor dependent upon his holdings for income. Not more than half of (*Please turn to page 311*)

# Potential Market Leaders

## Stocks With Outstanding Technical Patterns

BY FREDERICK K. DODGE



**S**PEAKING in terms of the Dow-Jones industrial average, this has been an uptrend market since April 28. But, of course, all stocks do not make their bottoms or tops at the same time. Short-term divergences in trends of individual stocks are always numerous and often prove to be without continuing significance to investment holders or buyers.

On the other hand, in every bear market a small minority of equities manage to go counter to the general market trend so persistently and over so impressive a period of time that, individually, they can properly be termed bull market stocks. The same is true in reverse. In every bull market, there is a minority of bear market stocks. Naturally, this is not happenstance. "Somebody knows something"—long before the general public knows it.

Many traders base both their selection of securities and the timing of purchases and sales solely on technical considerations. They reason—quite logically—that a stock's own market behavior supplies the most practical and timely evidence as to future trend probabilities. They are not particularly interested in what the last quarter's earnings per share were, or what the current price-earnings ratio may be. The shrewdest short-run traders don't buy a declining stock because it "looks cheap on earnings" or because they think or guess it ought to turn around pretty soon. They prefer to buy stocks that are *currently* rising—that is, to ride with a visibly existing trend. Naturally, they can't know how long the current trend direction will be maintained. It may prove to be a day, a week, a month or longer. But whatever it is, the chance of some profit is greater, and the risk of incurring loss lesser, if the effort is made to ride a trend, rather than to anticipate its reversal.

I do not for a moment suggest that investors should adopt a trading approach to the stock market. But most common stock investors would be a lot better off if they could bring themselves to adopt some of the flexibility of the trading-type mind. This is a fast-changing world—and always has been. The statistical information available to all of us concerning the affairs of any corporation is more or less past history. You may be convinced, after study of the available information and careful consideration, that a given stock should rise in value. Maybe it will. But if, instead, it continues to move persistently down, obviously your judgment has

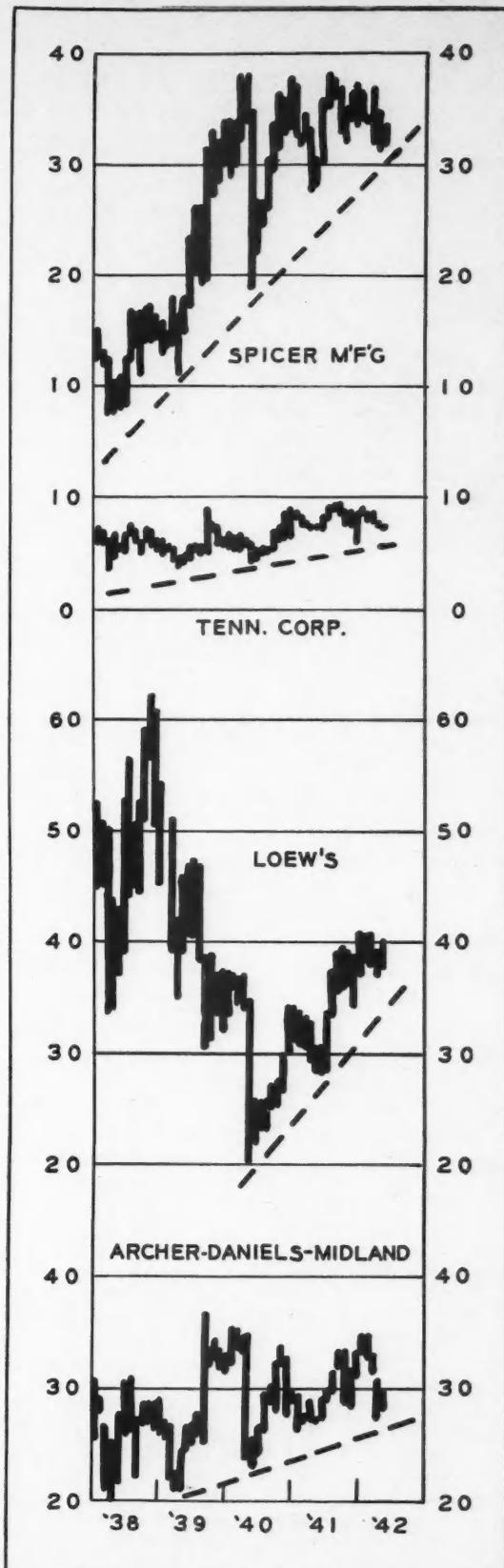
been wrong.

At the very least, a close look at the past and present market behavior of a stock which you are thinking of buying is usually a very useful check against your own independent judgment. So far as the market average is concerned, the reference points as to bottom resistance are the low of the spring of 1938, the low of the spring of 1940 and the low of last April. Where individual stocks have pulled away from the average—making rising bottoms on all general declines since 1938 or since 1940—the chances obviously are that the risk incurred in purchase is less than average and the probability of further appreciation greater than average. After a stock has been tentatively selected on the basis of favorable technical patterns, there is wide latitude for use of judgment as to whether "the cream is off" or whether the issue is still attractively or "reasonably" priced in relation to the earnings and dividends that you estimate are probable or possible.

In the accompanying charts we present a selection of seven common stocks whose technical patterns since the low of 1938 or 1940 have shown far greater strength than the general market. The following brief comments upon them individually are intended to aid you in formulating judgment as to whether the reasons for superior performance are still operative—whether, in short, "the cream is off" or worthwhile additional appreciation appears to be reasonable expectancy.

Loew's, Inc., made its last major low in the spring of 1940 at  $20\frac{1}{2}$ —anticipating much greater loss of foreign revenue than has since eventuated as a result of the war. Moreover, two years ago no one could have foreseen the real scope of the coming huge rise in public purchasing power—with consequent increase in theater patronage—any more than the scope of increase in war-time corporate taxation could have been foreseen. The fact that the stock reacted no lower than 28 in 1941 and no lower than 37 this year to date—despite the fact that taxes will be much heavier than was previously realized—means that the worst as regards taxes and everything else was discounted some two years ago at the  $20\frac{1}{2}$  price. The rising bottoms and tops since 1940 reflect increasing investment and speculative recognition of the favorable aspects of this company's position and prospect. These include increased volume, no significant priorities problem, demonstrated ability to make "hit" pictures, good financial condition, relatively good earning power in war or peace. Company paid \$3 per share in dividends last year out of fiscal year earnings of \$6.15 per share. As the company's tax credit is estimated at \$8.64, earnings will be sharply reduced. But at current price of 42 the issue is only some 11 times indicated net per share, or not an unreasonably high ratio to tax-depressed earnings. Assumption that post-war earnings probably will be higher, rather than lower, must be given weight. On a \$2 dividend the yield at current price would be about 4.76 per cent; on a \$2.50 dividend, about 5.95 per cent.

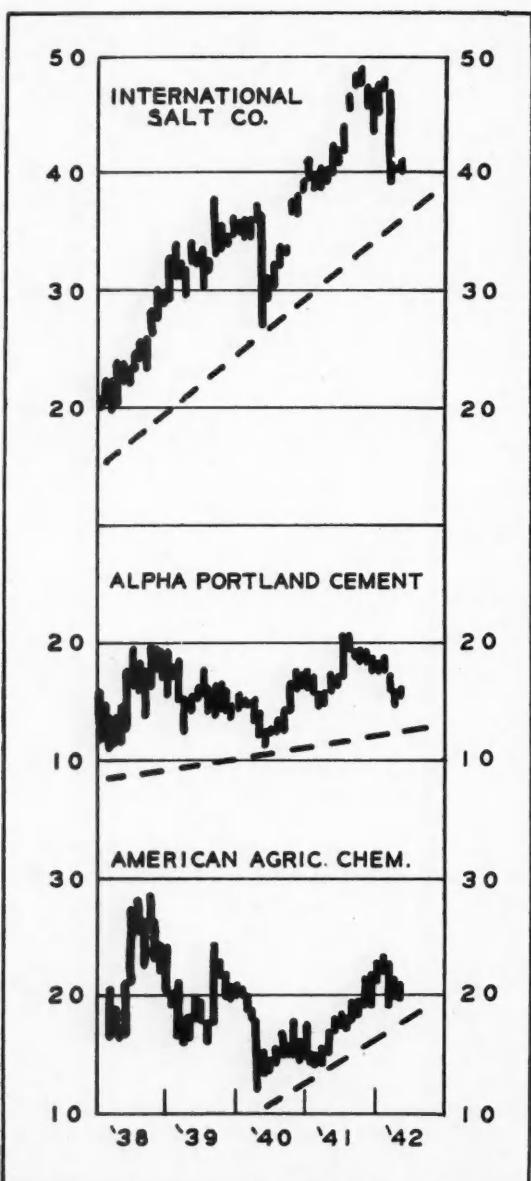
Chart of American Agricultural Chemical also shows series of rising rally highs and successively higher bottoms on all market swings over the past two years. Company is favored by war-time emphasis on expanded farm output, calling for more (*Please turn to page 307*)



# Potential Market Leaders

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BY FREDERICK K. DODGE



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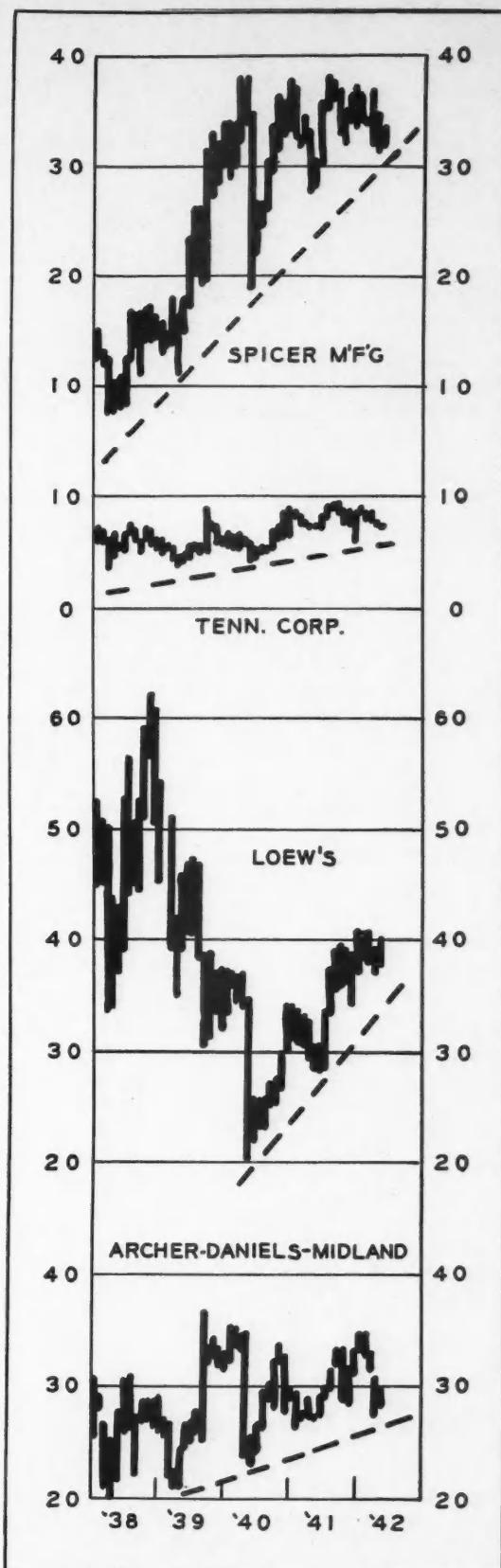
been wrong.

At the very least, a close look at the past and present market behavior of a stock which you are thinking of buying is usually a very useful check against your own independent judgment. So far as the market average is concerned, the reference points as to bottom resistance are the low of the spring of 1938, the low of the spring of 1940 and the low of last April. Where individual stocks have pulled away from the average—making rising bottoms on all general declines since 1938 or since 1940—the chances obviously are that the risk incurred in purchase is less than average and the probability of further appreciation greater than average. After a stock has been tentatively selected on the basis of favorable technical patterns, there is wide latitude for use of judgment as to whether "the cream is off" or whether the issue is still attractively or "reasonably" priced in relation to the earnings and dividends that you estimate are probable or possible.

In the accompanying charts we present a selection of seven common stocks whose technical patterns since the low of 1938 or 1940 have shown far greater strength than the general market. The following brief comments upon them individually are intended to aid you in formulating judgment as to whether the reasons for superior performance are still operative—whether, in short, "the cream is off" or worthwhile additional appreciation appears to be reasonable expectancy.

Loew's, Inc., made its last major low in the spring of 1940 at  $20\frac{1}{2}$ —anticipating much greater loss of foreign revenue than has since eventuated as a result of the war. Moreover, two years ago no one could have foreseen the real scope of the coming huge rise in public purchasing power—with consequent increase in theater patronage—any more than the scope of increase in war-time corporate taxation could have been foreseen. The fact that the stock reacted no lower than 28 in 1941 and no lower than 37 this year to date—despite the fact that taxes will be much heavier than was previously realized—means that the worst as regards taxes and everything else was discounted some two years ago at the  $20\frac{1}{2}$  price. The rising bottoms and tops since 1940 reflect increasing investment and speculative recognition of the favorable aspects of this company's position and prospect. These include increased volume, no significant priorities problem, demonstrated ability to make "hit" pictures, good financial condition, relatively good earning power in war or peace. Company paid \$3 per share in dividends last year out of fiscal year earnings of \$6.15 per share. As the company's tax credit is estimated at \$8.64, earnings will be sharply reduced. But at current price of 42 the issue is only some 11 times indicated net per share, or not an unreasonably high ratio to tax-depressed earnings. Assumption that post-war earnings probably will be higher, rather than lower, must be given weight. On a \$2 dividend the yield at current price would be about 4.76 per cent; on a \$2.50 dividend, about 5.95 per cent.

Chart of American Agricultural Chemical also shows series of rising rally highs and successively higher bottoms on all market swings over the past two years. Company is favored by war-time emphasis on expanded farm output, calling for more (*Please turn to page 307*)



# Happening in Washington

Charles Phelps Cushing Photo

BY E. K. T.

**Post-war food rationing** is being talked of quietly but significantly by New Deal chartists. OPA seers claim the Atlantic Charter pledges the United States to see that every individual in every nation has an opportunity to get food or the money to pay for it. That's a hefty obligation and the optimists are few who feel it can be discharged without food rationing in this country. Of course, political turnovers may oust these men and place in office American-minded folks who rate the interests of home folks first despite the charter.

## Washington Sees:

We are winning the production battle but losing the struggle to stabilize the domestic economy.

The explanation is simple—the President wants it that way.

A production miracle has been possible because Roosevelt centered power and responsibility in one man—Donald Nelson. He's not willing similarly to centralize authority and responsibility having to do with domestic policies. That would be politically unwise from the viewpoint of national planners. As a result Washington daily becomes more ensnared in a network of overlapping and conflicting agencies dealing with the essentials of everyday life, each grabbing for more power but all without adequate power to eradicate their own and the public's confusion.

This makes for a foreboding inflation outlook. Congress and the people are revolting against dogmatic war controls—price control is up against serious difficulty—industry's costs are rising—farm prices push higher—supply of consumer goods shrinks—wage demands are breaking out in a rash—strikes once more are on the upsurge. Things which ought to be done to curb this epidemic won't be done until after elections.

**Censorship** is being evoked to cover bureaucratic blunders, to keep real facts from the people. Sometimes it fails. It failed to shroud the story of thiokol, synthetic rubber soon to be flowing from the Dow Chemical Company at a rate of a million tire recaps per month. Office of Censorship prohibited newsmen from printing this tale. A small Michigan paper ignored censorship, published an interview with Dr. Dow. An obliging member of Congress promptly inserted this article in the Congressional Record and thereupon it became immune to censorship, printable by newspapers everywhere. That's how the public learned synthetic recaps may be available sooner than the planners planned.

**United Nations paratroops** may soon be pelting down on Axis areas in parachutes fabricated by American hat factories. A large segment of the hat industry is threatened with destruction by scarcity of consumer materials, and conversion to weaving nylon for 'chutes is being explored. Engineers say this can be accomplished with but slight alterations to existing machinery.

**Price Administrator Henderson** has no intention of quitting. And the White House won't ditch him. You can bet on that. Leon is too hardy to toss in the towel. But he's eating humble pie—consulting now with certain leading legislators on patronage matters. That's an about face executed with great reluctance and little grace by the man who smokes big, black cigars and wears no man's yoke.

**General sales tax** isn't extinct—it's merely in a state of suspended animation. It won't be in the revenue bill as passed by the House next month. Ways and Means Committee gave Treasury Secretary Morgenthau the choice of a sales levy or a tax bill two billion dollars short of estimates and he chose the latter for political reasons. But you can bank on paying a sales tax before the end of 1943.

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Underline these guesses for future reference. (1) You'll be able to buy enough fuel oil to keep your home comfortable this winter. (2) You'll be able to buy synthetic recaps for your tires much sooner than the propagandists would have you believe.

The rubber and petroleum supply problems have been mishandled by Washington planners with truly amazing stupidity. The President has been indifferent to their arrogant ignorance, has given them careless authority. That era draws to a close. Congress is tired of the public-be-damned attitude of bureaucratic bunglers and has made this clear to the White House. Clever enough politician to know the time has come to give ear to Mr. and Mrs. America, the Chief hereafter will strive to educate consumers before choking off their supply of essentials. He will be more cautious about heeding the career men.

National gasoline rationing looks improbable from this angle. Last month it was certain. The planners were doing business as usual. But Congressional spines stiffened and that made a difference. The rationed area may be enlarged, but almost surely won't blanket the entire country.

Pipeline from Texas to Illinois means oil burners in eastern homes will be kept blazing this winter. It does not mean the end of gas rationing, won't up Atlantic coast supply to normal demand level. WFB okay of the line was forced by Congress and you can bet the lawmakers will likewise see to it the eastern leg of the line between Illinois and New Jersey is laid before the 1943 winter. That will be more insurance for homes and war industries, may even help the ordinary motorist.

Don't bank on predictions the tax bill won't be a law before November elections. Probably it will loaf while the Senate Finance Committee holds hearings a few weeks. There's a very excellent chance the measure will be on the President's desk not later than October.

Subsidy payments for some business caught between fixed price ceilings and rising costs will be voted. Senators are delaying this legislation for the gleeful purpose of pushing pins into Leon Henderson. They've succeeded, and already Leon has been forced to ravish his solemn vow never to puncture ceilings. But some subsidies are inevitable and Congressmen aren't blinking that fact. They'll give their okay one of these days after Henderson has squirmed awhile longer.

Defense Transportation Director Eastman is fighting for more locomotives and open top cars. He isn't worried about box cars. Open top jobs are more important to war making.

If you're eighteen or nineteen years old, better ready yourself for the draft. You won't be taken before elections. The Army wants you now, but Congress figures V stands for votes as well as victory. So the draft age won't be dropped to eighteen until late this year or possibly early 1943. Probably these younger men will be first inducted by April. That means the older married fellows have a pretty good chance of staying out of uniform until July next year.

Army faces must have been red the other day when Washington news tickers carried from a high War Department official the statement that lowering the draft to 18 years was necessary because reckless, footloose boys made the best soldiers, fought with more abandonment than oldsters. Then some morale officer sensed this was fearful reading for mothers and quickly a "disregard" order was put on the wires.

Food Requirements Committee headed by Agriculture Secretary Wickard is a polyglot stopgap apt to flop. Its authority is vague. It leaves conflict of jurisdiction over food processing between WPB and the Agriculture Department. Mysteriously, OPA isn't represented on it at all. It makes recommendations to be carried out by other agencies. Seemingly it leaves Don Nelson still holding the strings. It's generally unsatisfactory to the food industry and government departments other than Agriculture.

Copper shortage grows more acute, and blame rests heavily on OPA for refusing to recognize early last year the need for a price premium on metal taken from high cost mines. OPA was converted months too late. When the differential was finally granted, the machinery shortage had hit, and today many mines still remain idle without equipment.

Federal Power Commission continues to be the bad boy worrying defense agencies, so don't be surprised if Congress spansks this offender. Already legislation has been drafted freezing the status quo of jurisdictional fights between the FPC and power companies. This may never emerge but is getting a lot of solemn consideration. Argument is advanced that if anti-trust laws are to be suspended in the interest of war efforts, why not the Federal Power Act.

Food scandals in Army buying are beginning to smell, and you can expect plenty of this sort of thing unless the Government acts to eliminate sloppy inspections. Food and Drug Administration is now trying to deodorize a deal under which three New England packers sold the Army 16,000 cases of decomposed canned fish. Agricultural Marketing Administration agents, who have been designated official inspectors for the quartermaster branch, okayed the delivery. FDA detected the spoilage later when checking for slack fills.

Social Security reform will go over until next year. Likewise will legislation increasing social security taxes. The Administration wants to hike such taxes two billion dollars annually as an inflation deterrent but has been told this can't be done in the pending revenue bill without provoking controversial delay.

Persuasion rather than force is to be used temporarily in directing the ebb and flow of the labor stream. United States Employment Service will seek to "persuade" workers, by threats and rewards and promises, to remain in present jobs or shift where needed. War Man Power Commission will buttress these efforts with propaganda calling on workmen to aid the war drive by cooperation with the USES. Washington will draft labor only as a last gesture—fears the political repercussions.

Government press agents become increasingly impudent in striving to shape newspaper policies. Maritime Commission has even been so impertinent as to "suggest" to editors and correspondents that Commission releases on shipbuilding be placed in a box titled "News of Our Victory Fleet" so they may be readily recognized by readers. Washington newsmen replied, "nuts", and added a few cuss words.

Forced savings won't be in the revenue bill as it's cranked out by the House. Treasury Secretary Morgenthau wants compulsory bond sales kept under wraps until after elections. Today he says payroll levies aren't necessary because war bond sales are rising. The House—where every member faces an accounting at the polls this fall—is happy to concur. But some tough talking Senators want mandatory savings right now and Morgenthau may have more trouble peddling his soothing syrup to these agents.

# On the Industrial Front

Too late with too little should be the slogan for New York as far as its position on the war industrial front is concerned. Recently New York's Mayor LaGuardia, ever ready to break a lance in the interest of his community, blandly made the assertion that New York was going to take its rightful place in the war industrial sun. His Honor took a trip to Washington to convince the Brass Hats that now, with New York ready, contracts should be handed out. But the Mayor was mistaken. The Army, who has been studying this situation through its Ordnance Corps for many years, says insufficient tools are available in New York.

And speaking of tools the Tooling Information Service maintained by the Automotive Council for War Production has done quite a job of digging up essential tools in the most unlikely places. For instance: They found huge planers needed to machine large metal plates in use by an Indiana limestone company, cutting 15,000 pound blocks of stone. Also they found turning equipment for a wheel 78 inches in diameter, needed for a tank job, in a railroad shop. And—equipment to machine a shaft four times longer than ordinarily handled, after vainly ransacking railroad shops, was located in a chemical plant. You never know where that tool you need is going to turn up.

The post-war winds are already beginning to blow. Many retailers and wholesalers, hit by shortages, have already turned to new lines such as, automobile dealers now selling beer; air raid sirens; poultry feed; and show rooms converted into bowling alleys and night clubs. Radio dealers are selling games and other amusements, while wholesale grocers are seeking flower bulbs, cosmetics and hosiery; and drug stores, unable to replenish their stocks of clocks, and electrical appliances, are actually selling drugs.

Continued squeeze of labor bottleneck may result in some changes relative to the employment of aliens in government arsenals and other plants. Appropriation bill riders which prohibit the paying of public funds to alien workers is hitting the Army and the Navy hard. Skilled workers are hard to find and many of them are aliens. Therefore the alien-employment ban is due for renovation.

Despite the fact that glass and pottery makers are almost alone in having no dearth of raw materials they are facing a difficult winter. Natural gas is being used on such an extensive scale in war industries in various sections of the country it may mean the shutting down of some ceramic works.

Another reason why there is a steady War Department demand for more ships is the fact that the number of ships available determines the number of soldiers that can be trained and shipped abroad. Camp limitations make for over-crowding and if ships are not available to transport the trained troops to battle fronts it means that much delay in sending new men to camps for training.

To give you some idea of how the vast war industry program is moving on the Pacific Northwest slope we point out that two enormous

hydro-electric generators originally constructed for the uncompleted Shasta Dam of California have been hurriedly shipped to Grand Coulee Dam in Washington—where power is needed badly.

Perhaps it escaped your notice but two records were established on National Maritime Day when 27 cargo vessels were launched. The two records were set in Portland, Oregon, where a Liberty ship was launched just 36 days after its keel had been laid, and another was put into service 60 days after keel-laying. That, combined with the 27 ships in one day, meant three records.

Dry cleaning fluids are playing an active part in the war effort. Virtually every piece of metal handled in industry, which means every piece of metal in military equipment, must be thoroughly cleansed before it take finished form. Synthetic cleaning fluids made from chlorine, save the day. Without them, war production would be slowed down considerably.

If you have been wondering what is going to happen to 100 electric cars which formerly operated on New York's elevated railroads you might be interested to know they will be brought to San Francisco to carry workers five and one-half miles from the end of the present rail facilities to the Richmond shipyards of the Kaiser outfit.

Donald M. Nelson put heart into industry when he said the volume of war material being produced in this country has passed British output three months ahead of the date originally set by production planners here.

The OPA is expected to focus its microscope on structural steel makers. Reason: So many of the industry's products, such as bridges, are custom made, defying the price ceiling technique and OPA has become intrigued by the industry's profit picture.

The American Iron and Steel Institute reports operating costs absorbed 93.5¢ of the steel industry's sales dollar last year, 2.5¢ more than in 1940, and 10.5¢ more than in 1929. After providing for payrolls, taxes, raw materials, depreciation and depletion and all other costs of production, 6.5¢ remained of each sales dollar received in 1941.

Some progress has been made in spreading primary war contracts, according to report issued by WPB. Last September the top group of 100 companies held about 82 per cent of all contracts for war supplies of \$50,000 or more, but, by mid-May holdings of the same 100 concerns had dropped to 76 per cent.

War time shortages are expected to leave a permanent effect upon the habits of the American people. Washington planners are finding it difficult to gauge just what the post war demands will be for such materials as synthetic rubber, silk, glass, plastics and light metals.

To ease the burden on the railroads and bus companies many concerns this year will start and end vacation periods in the middle of the week. The Army will cooperate by scattering furloughs and annual leaves throughout the year. Likewise they will do as little troop moving as is possible.

Another move to ease the transportation problem in the Pittsburgh area is under consideration. Government experts are studying a plan for shifting steel workers to plants closer to their homes. The men would exchange jobs with other workmen, who would also be moved closer to their respective homes.

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## New Age in the Air

BY A. BANCROFT WELLS

THE airplane of "tomorrow" is with us today. By that I don't wish to infer that tomorrow's airplane won't be vastly superior to the best we have in use today. What is meant, however, is that the plane we could normally have expected around 1945 or 1946 is in the air today due to the tremendous acceleration given the aircraft industry because of war requirements of a military and civilian nature.

Ever since war started in 1939 we have had daily illustrations of both the need for adequate air transportation and concrete evidence of the reliability of such carriers. The speed of the airplane itself is only rivalled by the speed in the development of the industry. It is indeed a long step from "flying the mails" in the pioneer days of the 1920's—when unlicensed ships of every conceivable post World War I type, were flown by daredevil pilots, without benefit of lighted airways, suitable landing fields or other adjuncts, in the first scheduled pay loads in the industry's history—to the type of ship in the air today, and another long step to the airplane we are certain to have with us shortly after the war ends.

Improved transportation and communication have shrunk the globe. But communication which today is virtually instantaneous, has reached its zenith as far as speed is concerned, the future merely presenting opportunities for improvement in method. Transportation is an entirely different matter. No one, no matter how conservative his thinking may be, will dare to prophesy that transportation has even approached its ultima Thule. The romance of transportation, today embodied in air travel, has been written scores of times and never lacks in interest. Whether it be the iron horse, steam ships, automobiles or airplanes, the story is always the same. A small beginning; skeptics who insist the new mode will "never pay," is "but a toy," a vehicle for the rich and will never be popular or practical! We have seen these scoffers of the iron horse, the steamboat, the automobile and even the pioneer airplanes, not only reverse their original opinions, but become devotees of the new mode themselves.

We have witnessed the growth of the airplane, within the space of little more than a generation from a hazard-

ous, flimsily-built, poorly controlled contraption to a modern liner capable of carrying tons of freight and dozens of passengers in comfort and at a great rate of speed. The Atlantic Ocean, within the space of a few years, has become little larger than a mill pond, so far as crossing it is concerned. Bombers which are being ferried almost daily from these shores to the British Isles make the trip in the matter of hours with safety and with regularity and without arousing a ripple of interest unless it is in the heart of Reichmarshal Goering and his lads.

War, destructive force that it is, nevertheless is the greatest of all spurs to inventive genius. War breeds the necessity for new ways to do many things beside sowing death. And transportation, certainly, is not the least of these. To get there first with the most men and arms; with the greatest firing power and the greatest maneuverability, is the cardinal principle of waging war. To deliver the goods where they are needed as swiftly and as surely as possible, is the cardinal aim of nations as well as private enterprise. The submarine menace, the long distance it is necessary to haul supplies, and the occupation of large areas of territory by enemy forces, are the reasons that airplane delivery of goods and of men is so important in this war. The Japanese closed the Burma road and China was in danger of strangulation—then came the air freight carrier and fresh hope for the gallant Chinese. The submarine has played havoc with ocean shipping but notables travel to and from Europe to America without danger and in comfort by airplane.

This, however, is but a start. We are building a gigantic airplane industry in this country; the like of which was undreamed of a few short years ago. The goal of military planes alone for 1943 is 180,000 airplanes. Within the first six months of 1942 we produced more airplanes than in the 35 years since Wright Brothers' days. The airplane has gone into mass production; has reached the assembly line status and no one, who has watched the development of the automobile industry, expects the airplane industry to relinquish its industrial gains.

Recently the chairman of the board of the Cunard-White Star Steamship Lines warned his shareholders that after the war the Cunard line would have to use airplanes in conjunction with passenger and freight ships. Grace line, one of the most prosperous American lines to South America, is already in the airplane transportation business, and the American Export line has followed suit.

#### Glance at Picture

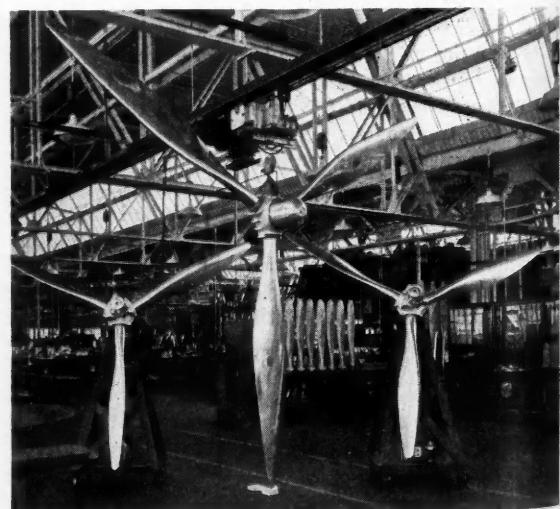
Before peering into the future of air transportation it is well worth while to glance at the picture as it exists today. According to the Aeronautical Chamber of Commerce of America, Inc., 1941 was the greatest year in the history of the industry. A survey made in the middle of 1941 showed that more than 80 per cent of the business travel was directly applicable to the defense program. In 1941, some 4,500,000 passengers were carried as against 3,185,278 in 1940. Distances flown increased from 119,517,263 miles in 1940 to about 150,000,000 miles in 1941. The fatality rate dropped from 3.05 passengers

to 2.20 per one hundred million passenger miles.

That same year air express celebrated its fourteenth anniversary by reaching the \$4,000,000 status. That represents an aggregate of more than 1,311,000 domestic shipments weighing approximately 11,000,000 pounds. Shipments were 21 per cent higher than in 1940. At the same time revenue increased more than 42 per cent, with poundage up more than 48 per cent. Air-rail shipments, which either start, finish or go part way by rail, increased 32.4 per cent over 1940. Gross income from this source gained 56 per cent in 1941, with December breaking the all-time monthly records for revenue and shipments. In addition to these domestic shipments there were 143,173 international air express shipments in 1941, as compared to 109,396 in 1940, an increase of 30.8 per cent. Largely because of increased Latin American business and opening of new services, gross revenue gained 56 per cent. Air express from this country reached the European continent for the first time, September, 1941, with service to Lisbon, gateway to the Continent and British Isles.

According to a commodity survey covering just one month made by Railway Express Agency of air express shipments, heavy industry forwardings, including machinery, aeronautical, automobile, electrical and rubber goods, hardware and implements and oil industry loadings, were the greatest revenue producers. These totalled 25,480 shipments and weighed an estimated 126.8 tons, or 31.6 per cent of the total weight flown that month. Printed matter, including magazines and newspapers, totalled 16,553 shipments, and store merchandise, including clothing, millinery, furs, shoes and textiles, amounted to 14,668 shipments. In order of volume other commodity groupings were electrotypes and matrices, broadcasting transcription records, news photographs, films, cut flowers, personal shipments, raw samples, medical and chemical supplies.

Air express has made tremendous strides. During 1941 more than 100 new airports were provided with air express service. American Airlines, a record breaking company, carried its 4,000,000th passenger on November 3, 1941, marking the first time any air transport com-



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pany reached that figure. During the first 10 years the company was in business it carried 1,000,000 persons, and 10 months later, reached the 4,000,000 passenger mark. In 1941 the company carried 1,202,816 revenue passengers, an increase of 31.8 per cent over 1940. The passenger mile figure was 409,400,652, an increase of 40.6 per cent over 1940. The load factor likewise showed an increase, reaching 69.4 per cent, indicating more efficient use of equipment on hand.

The Civil Aeronautics Board on February 10, 1942 issued to the American Export Airlines a certificate authorizing passenger, mail and express air service between New York and Foynes, Eire. This permits operation non-stop between the two terminals and supplements supply and communication service between the United States and American forces overseas.

Another important link in air transportation is the Hawaiian Airlines, Ltd., formerly Inter-Island Airways, now in its fourteenth year of operation. Since the service started between the islands of the Hawaiian group, 250,000 passengers were carried without accident. The planes flew in excess of 33,000,000 overwater passenger miles. During 1941 traffic showed an increase when approximately 45,000 passengers were carried, as compared with 28,000 in 1940.

Of course, no story of American airways would be complete without mention of Pan-American Airways. This company eclipsed all previous years in its 14 years history, from the standpoint of expansion, development and maintaining American flag routes in the international air transport field in 1941, when the company expanded its route mileage from 69,464 to 88,478 miles. Chief of its expansions was the establishment of a new intercontinental route from the United States to Africa by way of South America, incorporating regular air line operations across the South Atlantic, long the exclusive operating stronghold of European airlines; establishment of a new direct air link between the United States and Singapore as well as placing in service a new transcontinental airline across South America comparable in length to the longest transcontinental domestic air line in the United States. All of this was accomplished in the 341 days of peace last year.

During that year the planes of the Pan American Airways System flew 231,100,000 passenger miles and carried approximately 375,000 passengers on its regularly maintained and operated 88,478 miles of international airways serving 62 countries and colonies.

### Clipper Routes

Within a week after this country entered the war, the Atlantic Clipper, on schedule, arrived in New York to complete the 500th crossing of the Atlantic by the Pan American Airways since its inauguration of this service in May, 1939. Of these 500 crossings, 472 had been made on the New York-Lisbon run, 26 on the New York-Foynes run, two on the New York-Leopoldville, Belgium Congo route. From a statistical standpoint 1941 was phenomenal. Passenger miles flown jumped from 13,000,000 in 1940 to 23,600,000 in 1941, an 80 per cent increase. Miles flown by the Clippers of the Atlantic fleet rose to 1,200,000 from 500,000 in 1940. Passengers carried on all transatlantic routes totaled some 10,000.



Curtiss-Wright Photo.

This is by no means the complete picture of commercial flying in this country. But it gives a fairly comprehensive idea of what a gigantic enterprise commercial flying, both from the standpoint of freight and passengers has become. I have deliberately refrained from going into the postal field, for even those most antagonistic toward air travel admit, grudgingly perhaps, that airmail is a success.

The war is the greatest possible boom this new method of transportation could have. Shipping bottlenecks make the use of more and more air freighters a necessity. Only a few days ago the War Productions Board took under advisement a huge program for the construction of freight carrying planes. Diversion of some materials from shipbuilding to plane construction is under serious study and may be ordered by the time this magazine goes to press. If the program should be approved, fleets of huge cargo planes may be put into service within a year—and may prove a major point in winning the war. Air transport of men and supplies is being used now by the United Nations in every theater of war. With the Burma Road closed planes shuttling back and forth from India have delivered almost as much war material as ever went over that famous highway. They carry trucks, jeeps and field artillery as well as lighter cargoes. Similar transport planes are in use to supplement ships in other supply routes—such as from the U. S. to the Near East.

Most of the transports now in use are simply modifications of the familiar passenger air liners, but bigger air freighters are just coming into use and giant cargo carriers are ready in experimental models and on the draughtsmen's drawing boards. The Curtiss "Commando," just put into mass production, can carry 50 fully equipped soldiers, or an equivalent amount of freight. The world's largest (*Please turn to page 308*)

# **OUTLOOK FOR PUBLIC UTILITIES IN OUR WAR ECONOMY**

**Part I—The Position of the Industry.**

**Part II—The Prospect for Utility Securities.**

BY FRANCIS C. FULLERTON

## **PART I**

**E**VERYBODY knew that the public utility industry could be considered a "war casualty." It was duly noted that rates were fixed and that the economics of a war period would raise operating costs and taxes in greater degree than could be offset by increase in gross revenue. All very true.

But two things were not foreseen: (1) the drastic scope of the tax threat as it has now developed; and (2) the fact that a majority of *all* industries would become "war casualties" in the sense that under the pending tax legislation their earning power will be reduced below the average of the pre-war years 1936-1939.

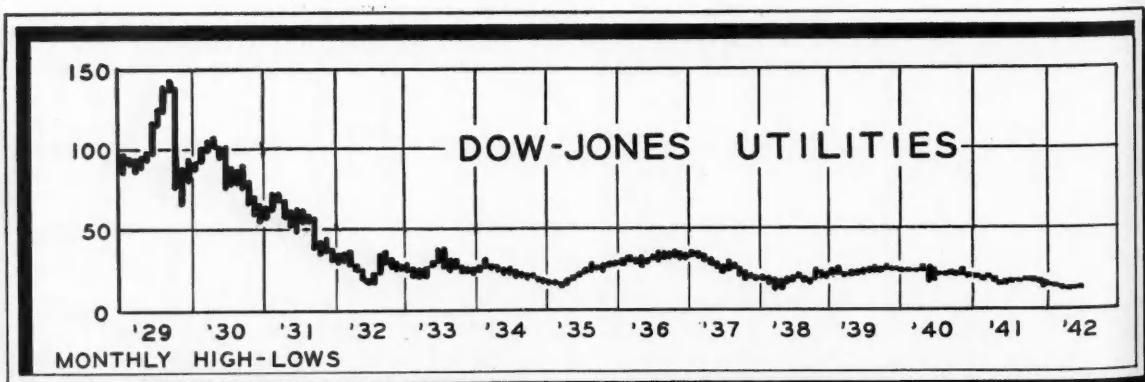
In security valuation, all things are relative. Considered by itself, the war status of the utility industry is quite drab. Considered in relation to other industries, it doesn't look too bad. It is not that the industry has fared better than had been generally expected when the war began, but that anticipations for most of the others have proved too high. In short, in the matter of tax-depressed earnings, the much abused utilities are going

to have lots of company throughout American industry.

Assuming that the corporate tax schedules set up recently by the House Ways and Means Committee will become law, the writer estimates that the aggregate net income of the electric power industry for 1942 is likely to be reduced by some 16 or 17 per cent from the level of last year; and that the aggregate income available for the common stocks will be reduced by some 22 to 23 per cent.

The above over-all calculation explains why—though there are marked variations in position and prospect of individual utilities—some dividends already have been reduced and why other downward revisions will come along in due time. But again be it observed that among *all* corporations—including those doing war work—only a minority will fare much better than the utilities, so far as concerns percentage decline in 1941 earning power.

Hence, if other things were equal—if the war factors were the only consideration—it could be reasoned that either many industrial stocks are greatly over-priced or





Gendreau Photo.

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the utilities are under-priced. As usual, there will be a pretty good market for electricity and gas after peace comes—and probably a “fair to middling” return earned on the industry’s investment. How much demand—and profit—will there be for the steel industry? The rail equipment industry? The shipbuilders? Machine tools?

Unfortunately, “other things”—material and psychological—are not equal; and the temporary war influences can not constitute the only consideration.

You perhaps don’t need to be reminded that the utility industry has more than one war on its hands. There is its war with the New Deal, now some years old and still continuing. This is a unique war. Although one side—and you know it’s not the utility army—wins all the battles with ease, nevertheless peace is not in sight. Then there is the still older war—now much eclipsed by the other two—between the utilities and the regulatory agencies and taxing authorities of the various states and cities.

Very recently one of the New Deal’s leading anti-utility strategists—Leland Olds, chairman of the Federal Power Commission—made a speech in New York City. Pointing out that the industry—at the peak of the war expansion—will have a productive capacity of 300 billion kilowatt hours of electric energy, or enough to supply more than double the consuming demand of the pre-war year 1939, Mr. Olds said there nevertheless would be “little difficulty” in using that vast capacity in the post-war period—but he qualified it with an “if,” as follows:

“If private utilities learn once again to compete, if they accept their business as a social responsibility, then I foresee a real future for private operation as an American institution.”

Go over that statement again. Against what does Mr.

Olds expect the utilities to compete? Against each other? That doesn’t make sense. Obviously, Consolidated Edison in New York can’t compete with Commonwealth Edison in Chicago. And obviously new private capital will not compete with established utilities, even if the local regulatory bodies would permit it, which they wouldn’t. So that leaves just one source of real competition in the utility business: competition between private utilities and governmental utilities—the latter financed at Government-bond rates out of the bottomless (?) pocket of Uncle Sam, subsidized by the taxpayers and operated with more or less disdain for the profit motive and for the orthodox accounting procedures that private enterprises are expected to follow.

But let’s continue for a moment with the observations of Mr. Olds. He said that the utilities must write down the book value of their properties to actual original cost. That would not be too bad, from the point of view of investors in the sounder operating companies—if they could be sure that such a basis of property valuation would be permanent. But at times of depression prices, they have seen the anti-utility politicians argue with equal vehemence that property valuation for rate-making purposes should be based on *replacement cost*. This is a change merely of tactics, not of strategy. The strategy is always consistent and simple. Basically, it is: “Heads, the utilities must lose; tails, the consumers (and tax collector) must win.”

To finish up with the Chairman of the Federal Power Commission—and we cite his remarks because they must be assumed to represent the point of view of the Administration which is now in power and which in any event is certain to remain in power until the 1944 election—consider this final warning:

#### Post War Prospect

“In attempting to forecast the future of the power industry after the war, you can take one thing for certain: the business of the country is going to be run for consumers: that is, for the people who live in it, not for the great investors. Capital is going to be the servant, not the master, in our common household. Where there is a conflict between the interests of consumers and investors, the consumer interest will prevail even though this may mean limitation of the freedom of corporate property where it infringes on the freedom of the individual.”

It is not our purpose here to debate with Mr. Olds. Whether his remarks are wise or foolish is beside the point. The point—of which we are again reminded by the official utterances quoted herein—is that our present ruling political regime is and will remain “anti-utility,” calmly ignoring the fact that the majority of the millions of investors who hold depressed utility securities are not “great investors” but decidedly small ones.

This underlying fact—even more than the unavoidably high taxes of war time—explains the lowly ap-

## Leading Utility Operating Companies

| Company  | Gross<br>Rev.<br>1941 | Gross<br>Rev.<br>1940 | Federal<br>Taxes<br>1941 | Federal<br>Taxes<br>1940 | Times Fixed<br>Charges Earn. |      | Times Preferred<br>Divs. Earned |      | Earned Per<br>Share Common |        | Divs.<br>Paid<br>1941 | Latest<br>Quar.<br>Div. | Recent<br>Price |
|--|-----------------------|-----------------------|--------------------------|--------------------------|------------------------------|------|---------------------------------|------|----------------------------|--------|-----------------------|-------------------------|-----------------|
|  | (000,000's)           | (000,000's)           | (000,000's)              | (000,000's)              | 1941                         | 1940 | 1941                            | 1940 | 1941                       | 1940   |                       |                         |                 |
| Boston Edison . . . . .                          | \$39.0                | \$36.9                | \$3.1                    | \$1.0                    | 6.1                          | 3.6  | No Pfd.                         |      | \$2.43                     | \$2.39 | \$2.00                | 0.50                    | 23              |
| Cleveland Elec. Illum. . . . .                   | 35.3                  | 35.0                  | 4.5                      | 1.8                      | 9.9                          | 7.9  | 6.2                             | 7.3  | 2.54                       | 3.08   | 2.50                  | 0.62½                   | 33              |
| Commonwealth Edison . . . . .                    | 165.5                 | 154.8                 | 17.8                     | 10.0                     | 4.7                          | 4.2  | No Pfd.                         |      | 2.10                       | 2.32   | 1.80                  | 0.35                    | 20              |
| Consolidated Edison . . . . .                    | 259.8                 | 256.9                 | 62.4                     | 58.0                     | 2.9                          | 3.0  | 3.1                             | 3.3  | 2.00                       | 2.23   | 1.80                  | 0.40                    | 13              |
| *Consol. Gas Elec. Lgt. & Pwr. (Balt.) . . . . . | 43.1                  | 39.2                  | 7.2                      | 6.2                      | 4.5                          | 4.0  | 5.2                             | 5.7  | 4.64                       | 4.41   | 3.60                  | 0.90                    | 53              |
| *Detroit Edison . . . . .                        | 73.6                  | 65.9                  | 5.3                      | 3.0                      | 3.9                          | 3.2  | No Pfd.                         |      | 1.96                       | 1.69   | 1.40                  | 0.35                    | 17              |
| *El Paso Natural Gas . . . . .                   | 6.7                   | 6.4                   | 1.0                      | 0.7                      | 8.0                          | 8.7  | 20.7                            | 22.8 | 3.40                       | 3.76   | 2.30                  | 0.60                    | 21              |
| Pacific Gas & Elec. . . . .                      | 115.4                 | 110.0                 | 10.8                     | 8.1                      | 2.9                          | 3.1  | 2.8                             | 3.1  | 2.31                       | 2.68   | 2.00                  | 0.50                    | 19              |
| Pacific Lighting . . . . .                       | 48.7                  | 45.2                  | 9.3                      | 7.7                      | 3.3                          | 2.8  | 6.4                             | 6.0  | 3.35                       | 3.13   | 3.00                  | 0.75                    | 27              |
| Public Service Corp. of N. J. . . . .            | 151.2                 | 140.3                 | 15.8                     | 9.4                      | 2.6                          | 2.8  | 2.1                             | 2.4  | 2.04                       | 2.42   | 1.95                  | 0.20                    | 10              |
| Southern California Edison . . . . .             | 48.6                  | 46.4                  | 5.1                      | 0.6                      | 4.7                          | 3.3  | 2.5                             | 2.4  | 2.42                       | 2.59   | 1.75                  | 0.37½                   | 18              |
| *Washington Gas Light . . . . .                  | 10.9                  | 10.4                  | 0.5                      | 0.4                      | 3.1                          | 3.1  | 4.5                             | 5.4  | 2.24                       | 2.52   | 1.50                  | 0.37½                   | 14              |

\*Attractive for Income.

praisals currently put upon utility equities in "the bloodless verdict of the marketplace."

Yet the loose assertion, sometimes heard, that the New Deal has "ruined" the utility industry, through competitive power projects or otherwise, is, of course, a wild exaggeration. The proportion of the total consuming market now being served by public power—most of this generated at Federal hydro-electric sites—is still relatively small. The ratio will unquestionably increase but much of the increase will not represent competitive loss of business by the private utilities. Anything like full utilization of the potential energy production of Government power projects in the Pacific northwest, for example, or even of T V A, will require a consuming market that could only be provided by great new industrial development. A substantial proportion of the Federal energy sales would add to total consumption without subtracting from consumption now served by private systems.

Economic feasibility, even in political eyes, puts definite limits on the distribution radius that can be served by the present Federal power projects, none being located in our most populous, industrialized areas. The potential threat of the President's cherished St. Lawrence project can not be put out of mind, but it is anybody's guess whether and when it may eventuate. Even without this, the vast increase in generating capacity now in sight—including a great increase in steam-generating capacity financed by the private utilities—would suffice to service any conceivable demand for some years to come: a consumption, as previously pointed out, more than double that of the pre-war year 1939.

With so great a supply of electricity assured, at rates which have steadily gone lower and lower and concerning which no genuine popular agitation (as distinct from political propaganda) is visible to the naked eye, it is open to considerable doubt whether the public-power boys in future are going to find it so easy to ram additional ambitious hydro projects down the throats of the tax-paying public.

I think there is at least enough common sense in Congress so that the sheer economics of power generation

and distribution will not be entirely ignored. Under certain conditions, hydro power is cheapest; under other conditions, steam generation is cheapest. Great technological advances are being made in both types of generation. Steam generation is always reliable. In some at least of the hydro-electric areas—as was demonstrated not so long ago in the T V A region—unpredictable drouth conditions represent a hazard. So the future certainly will not belong to hydro power nor to steam power, but to both. Moreover, the ultimate potential of Diesel-generated electricity is yet to be reckoned with and—depending upon further engineering progress—it may prove very great, especially as the possible answer to rural electrification.

### Plant Expansion

According to the Federal Power Commission, the sum of \$1,069,309,387 will be spent this year on electric utility expansion, an increase of about \$200,000,000, or 23 per cent, over the 1941 outlay. The additional gross generating capacity scheduled for the year is 3,735,085 kilowatts, against 3,352,639 last year. Of the total budgeted capital expenditures, \$621,945,204 will be spent by the private utilities and \$447,364,183 by governmental utilities—comparing with 1941's total of \$591,918,548 for the former and \$277,668,306 for the latter.

Excepting where actively wet-nursed by the New Deal in its hydro-electric areas, the trend toward municipal utility ownership is too anemic to be considered much of a threat. On the one hand, radically increased Federal taxes and lower earnings, will give some small privately owned plants greater reason to "sell out." On the other hand, the majority of municipalities are hard-pressed to find adequate tax revenues and have no yen for foregoing the taxes paid by private utilities, as they would have to if such plants were taken over for public operation. In the matter of municipal power operation—unlike the distant Federal projects—the issue comes close home to the voters. More and more of them are perfectly aware that it makes little difference whether you pay for electricity in a light bill or a tax notice—

Recent  
Price  
23  
23  
20  
13  
53  
17  
21  
19  
27  
10  
2  
18  
2  
14

and that, either way, there is nothing "free" about it. Gross revenues of the electric and gas utility industry so far this year have been some 8 per cent above a year ago. Generally speaking, this is enough to offset the increase in operating costs, so it is accurate to say that decline in net income from a year ago is due wholly to higher Federal taxes. As it is, reported net income of the industry—judging by a large and representative cross section of companies—is running some 13 per cent under a year ago.

As in the case of all industries, both individual company reports and composite earnings generalizations have to be approached with care. Tax reserves are being accrued by the individual companies at widely varying rates and therefore most recent earnings statements are subject to later revision when Federal tax rates are definitely known. Few companies in this industry are subject to excess profits taxes and the total is rather unimportant as compared with normal and surtax. Some are now setting aside tax reserves at 40 per cent, which is the rate indicated by the House Ways and Means Committee formula; a few are making accruals at 45 per cent, others at 35 per cent and most at 31 per cent, which is called for under existing law.

In the writer's opinion, the "inflation threat" to the utilities does not appear sufficiently dynamic to warrant more than brief discussion. The modern technique of

war-time inflation control is well understood by the Administration and all signs indicate it will be applied with increasing firmness and resolution. For the electric utilities, total labor costs approximate 16 per cent of gross revenue. Rates of pay are not "sub-standard," according to New Deal definition; the Government is opposed to "inflationary" wage increases, and it is improbable this cost factor will change importantly. Even should there be some increase in labor cost, it would not importantly change the relatively low ratio (16 per cent) of such cost to gross. The more important commodities bought by the utilities, especially fuel, are among those most readily controlled by the Government. Fuel costs average about 8 per cent of gross revenue, maintenance expenses about 6 per cent.

Combined costs of payrolls, fuel and maintenance absorb an average of about 30 per cent of gross intake—the balance being represented by taxes, depreciation, interest and net earnings. Incidentally, ratio of net earnings to gross revenue is among the highest of all industries. Over the period 1933-1940, with remarkable consistency, it ranged between 22.9 per cent and 25.1 per cent, although it is now declining in proportion to increased income taxes. But capital turnover is very low, with the result that under existing tax rates even the best situated companies do well to earn 5 per cent on capital investment. This is (*Please turn to page 304*)

### Leading Telephone and Telegraph Companies

| Company                      | Gross<br>Rev.<br>1941 | Gross<br>Rev.<br>1940 | Federal<br>Taxes<br>1941 | Federal<br>Taxes<br>1940 | Times Fixed<br>Charges Earn. |        | Times Preferred<br>Divs. Earned |         | Earned Per<br>Share Common |      | Divs.<br>1941 | Latest<br>Quar.<br>Div. | Recent<br>Price |
|------------------------------|-----------------------|-----------------------|--------------------------|--------------------------|------------------------------|--------|---------------------------------|---------|----------------------------|------|---------------|-------------------------|-----------------|
|                              | (000,000's)           | (000,000's)           | (000,000's)              | (000,000's)              | 1941                         | 1940   | 1941                            | 1940    | 1941                       | 1940 |               |                         |                 |
| American Tel. & Tel.         | \$1,298.7             | \$1,174.3             | \$105.3                  | \$62.5                   | 4.8                          | 5.7    | No Pfd.                         | \$10.36 | \$11.26                    | 9.00 | 2.25          | 114                     |                 |
| *General Telephone           | 22.3                  | 20.3                  | 1.9                      | 1.1                      | 1.6(a)                       | 1.6(a) | 5.5                             | 5.9     | 9.86                       | 2.65 | 1.55          | 0.40                    | 14              |
| New England Tel. & Tel.      | 86.6                  | 80.4                  | 6.3                      | 2.9                      | 4.1                          | 3.5    | No Pfd.                         | 7.15    | 7.42                       | 7.00 | 1.50          | 86                      |                 |
| Pacific Tel. & Tel.          | 144.8                 | 129.1                 | 9.4                      | 6.0                      | 7.3                          | 7.7    | 3.8                             | 3.7     | 5.74                       | 7.40 | 7.00          | 1.75                    | 85              |
| Southern New England Tel.    | 23.0                  | 20.5                  | 2.4                      | 1.0                      | 6.7                          | 6.0    | No Pfd.                         | 7.87    | 8.10                       | 7.00 | 1.75          | 103                     |                 |
| International Tel. & Tel.(b) | 2.9                   | 3.7                   | Na                       | Na                       | 0.5                          | 0.6    | No Pfd.                         | d0.40   | d0.29                      | None | None          | 2                       |                 |
| Western Union Telegraph      | 114.1                 | 99.7                  | 1.5                      | ...                      | 3.2                          | 1.9    | No Pfd.                         | 7.05    | 3.46                       | 2.00 | 0.50          | 34                      |                 |

<sup>a</sup>Attractive for Income.

(a) Overall fixed charges and preferred dividends. (b) Company only. Na—Not available. d—Deficit.

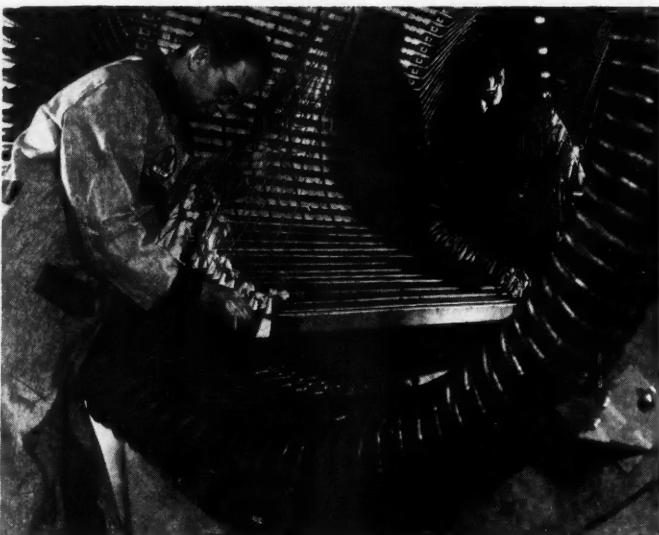
### Leading Utility Holding Companies

| Company                      | Gross<br>Rev.<br>1941 | Gross<br>Rev.<br>1940 | Federal<br>Taxes<br>1941 | Federal<br>Taxes<br>1940 | Times Fixed<br>Charges Earn. |        | Times Preferred<br>Divs. Earned |        | Earned Per<br>Share Common |        | Divs.<br>1941 | Latest<br>Quar.<br>Div. | Recent<br>Price |
|------------------------------|-----------------------|-----------------------|--------------------------|--------------------------|------------------------------|--------|---------------------------------|--------|----------------------------|--------|---------------|-------------------------|-----------------|
|                              | (000,000's)           | (000,000's)           | (000,000's)              | (000,000's)              | 1941                         | 1940   | 1941                            | 1940   | 1941                       | 1940   |               |                         |                 |
| American Gas & Elec.         | \$97.7                | \$86.3                | \$9.5                    | \$5.3                    | 2.1                          | 2.0    | 8.2                             | 9.0    | \$2.72                     | \$2.99 | \$2.00        | 0.40                    | 18              |
| American Light & Traction    | 50.2                  | 46.9                  | 3.0                      | 1.9                      | 2.0(a)                       | 2.0(a) | 7.2                             | 7.3    | 1.81                       | 1.84   | 1.20          | 0.30                    | 10              |
| American Power & Light       | 114.8                 | 108.2                 | 12.5                     | 7.8                      | 1.4                          | 1.5    | 0.9                             | 1.2    | d0.02                      | 0.64   | None          | .....                   | 56              |
| American Water Works & Elec. | 62.9                  | 57.9                  | 6.8                      | 4.1                      | 1.3                          | 1.3    | 3.1                             | 3.4    | 1.11                       | 1.21   | None          | ....                    | 2               |
| Commonwealth & Southern      | 172.6                 | 152.1                 | 20.2                     | 9.9                      | 1.4                          | 1.4    | 1.4                             | 1.5    | 0.09                       | 0.12   | None          | ....                    | 14              |
| Electric Bond & Share        | 11.3                  | 11.2                  | 1.1                      | 0.9                      | No Funded Debt               | 1.2    | 1.2                             | 0.24   | 0.29                       | None   | ....          | 1                       |                 |
| Electric Power & Light       | 126.7                 | 114.9                 | 10.8                     | 6.6                      | 1.3                          | 1.3    | 1.6(b)                          | 1.2(b) | 0.67                       | 0.17   | None          | ....                    | 1               |
| Engineers Public Service     | 64.7                  | 57.1                  | 6.3                      | 2.6                      | 1.2(a)                       | 1.2(a) | 2.1                             | 2.3    | 1.27                       | 1.61   | None          | ....                    | 2               |
| Federal Light & Traction     | 10.2                  | 9.6                   | 0.7                      | 0.4                      | 1.9                          | 2.0    | 4.1                             | 5.0    | 1.58                       | 2.02   | 2.75          | 0.25                    | 7               |
| Middle West Corp.            | 74.2                  | 66.3                  | 7.6                      | 4.1                      | 2.7                          | 2.7    | Na                              | Na     | 1.13                       | 1.19   | 0.40          | 0.10                    | 3               |
| National Power & Light       | 85.2                  | 78.7                  | 8.3                      | 3.6                      | 1.5                          | 1.5    | 4.3                             | 5.3    | 1.03                       | 1.32   | 0.45          | (e)                     | 2               |
| Niagara Hudson Power         | 103.2                 | 91.5                  | 6.6                      | 3.6                      | 1.5                          | 1.5    | 4.6(b)                          | 4.6(b) | 0.66                       | 0.66   | None          | None                    | 1               |
| North American               | 144.6                 | 130.3                 | 14.1                     | 8.8                      | 1.9                          | 2.0    | 5.3                             | 5.3    | 1.92                       | 1.92   | (c)           | (c)                     | 7               |
| United Gas Improvement       | 102.1                 | 96.4                  | 13.6                     | 9.6                      | 2.0(a)                       | 2.4(a) | 5.7                             | 7.3    | 0.77                       | 1.03   | 0.75          | 0.10                    | 4               |

(a) Fixed charges and preferred dividends. (b) 1st Pfd. stock. (c) Divs. paid in subsidiary stocks. (d) Deficit. (e) Dividend passed. Na—Not available.



## ELECTRIC EQUIPMENTS IN WAR



Westinghouse Electric Photo

BY WARD GATES

THOR, God of the lightning, is the first lieutenant of Mars, God of war, as far as the present conflict is concerned. Mars would no more think of starting a campaign without the assistance of his aide Thor than you would think of going to your office without your shoes.

The average American, accustomed to more electrical gadgets to the square inch, in home, in office and even at play, than most Europeans find to the "square yard," is inclined to view this gigantic industry largely as the producer of electric razors, toasters, coffee urns or other appliances, instead of an industry manufacturing energy-producing units and monster marine industrial and other power plants. Therefore, when it became evident that the continued production of non-essential electrical appliances would have to cease because of war needs, many people, regrettably of course, pictured the electrical equipment business as a war "casualty." And that is precisely where they were in error.

The electrical equipment business is operating at maximum capacity producing the sinews of war. As half of 1942 is completed there isn't the slightest doubt that production on records set by the industry in 1941 will be eclipsed by a wide margin this year, now that new plants and new machines are in almost continuous production. With the passing of each 24 hours the industry

becomes a more vital adjunct to the war effort. The facilities which produced the world's greatest supply of household appliances, of radios and other "non-essential" products, greatly augmented, are definitely out to win the war. Long before priorities came into being; when the country first went on a defense armament basis, the industry took stock of itself and cleared the decks for war work. This was no simple task. To convert fully to war work required all of a year. Unlike the automobile industry, concerned chiefly with the manufacture of one item, an automobile or a truck; the electrical equipment industry was engaged in a most diversified production program. Consequently conversion meant more changes than for the single-product industry. The automobile industry ceased making civilian cars and made army vehicles or engines of war in a limited field; but that is not the case with the electrical equipment people. Just as they were making a host of peacetime products they are now making a host of wartime goods.

The first problem, after setting up the necessary machinery, was to train crews of workers in the use of the new machines—especially where greater precision was needed. In the fall of 1940 the first defense orders began pouring in—a stream that soon developed into such

a deluge that within a year the industry had the largest back-log of orders on record. During 1941 the industry undertook the task of plant expansion and when this year started they really had their "sleeves rolled up" and were prepared for anything. Since Pearl Harbor figures relative to the production of actual armament products are virtually unavailable for obvious reasons.

It is interesting to note that during the first three months of 1940, three companies, Allis-Chalmers, General Electric and Westinghouse, received orders totaling \$737,876,751 and in the same months were able to ship goods valued at \$528,791,249, which is equal to 71.7 per cent of the orders received. Orders topped shipments by \$209,000,000.

For 1942 shipments by the same three companies were \$300,000,000 larger than in 1941, but orders were nearly \$700,000,000 greater, amounting to \$1,410,499,530. Billings during the nine months were \$829,817,292, which represents only 58.8 per cent of orders received.

A large part of the orders represent products for slow delivery, goods which couldn't be used immediately even if deliveries were available. They represent gigantic turbines for battleships, which are still to be built. However, the turbines and other electrical equipment must be available for instant installation when the hulls are ready. Additional appropriations for war vessels and the tremendous shipbuilding program now in progress will mean a more or less steady flow of such turbines and reduction gears.

The electrical equipment business bears a marked resemblance to most every other industry today; especially those engaged almost exclusively in war work. And that is in the matter of profits. Although business increased tremendously, net profits decreased—due, of course, to heavy increases in the tax burden. An excellent example of this can be found by analyzing the financial status of Westinghouse. In 1941 that company earned \$7.21 per share, and paid \$5 per share. During the first three months of 1941 the company

earned \$2.10 per share. The first three months of 1942 show earnings of \$1.28 per share and the company has paid \$2 per share in dividends. Estimates figure the annual dividends at between \$3.50 and \$4 per share, with a tax credit in excess of \$4 per share. At the same time there has been considerable fluctuation in the price of the securities. The high price for the year was 81 1/4, with 63 1/8 as low, and 72 the price as this article is written. General Electric is another example, to prove that Westinghouse was not an exceptional case. General Electric in 1941 earned \$1.99 per share, and paid \$1.40. Earnings for the first three months of 1941 were 39 cents a share, and for the same period this year, were 36 cents with \$1.05 paid in dividends. The high price of the stock this year has been 28 3/8, and the lowest price so far is 21 1/4; with shares selling at 26 today. There you have an example that increased volume of business and greater gross earnings not only mean less net profit and lower dividends but often a reduction in the price of the securities themselves.

### War Came First

In studying the war effect upon the electrical equipment business we are struck by a peculiar and most significant fact. This gigantic business, always well known for its economical operation, plunged into the defense and later the war effort, with but one thought in view! To equip the nation with an almost complete disregard for the effect on profit margins. The many finely drawn economies which had marked the industry over a period of years were thrust aside if they threatened to retard the flow of goods needed by the nation's armed forces. At the very outset the industry accepted defense business at prices promising at best, a limited profit. The manufacturer assumed the attitude that production, not profit, was the important point. This is clearly demonstrated by the fact that orders for three companies rose 91 per cent; shipments increased 56 per cent, and profits (*Please turn to page 312*)

### Leading Manufacturers of Electrical Equipment

| Company                      | Earned Per Share<br>1941<br>\$ | Earned Per Share<br>1st 6 mos.<br>1941<br>\$ | Div's Paid<br>1941<br>\$ | Latest<br>Div.<br>\$ | 1942<br>Price Range<br>High<br>Low | Recent<br>Price | COMMENT |       |   |
|------------------------------|--------------------------------|--|--------------------------|----------------------|------------------------------------|-----------------|---------|-------|---|
| Black & Decker.....          | 13.78                          | 1.76   | 2.18                     | 1.80                 | .40                                | 19 1/4          | 14 1/4  | 18    | Leading mfr. of portable electric tools. Tax credit estimated at about \$1.25 a share, before excess profits. |
| Crocker-Wheeler.....         | 2.52                           | NA   | NA                       | None                 | .15                                | 5 1/2           | 4 1/4   | 4 1/4 | Products include motors and generators. Further dividends likely.   |
| Cutter-Hammer.....           | 2.27                           | .61  | .65                      | 1.50                 | .25                                | 17 3/4          | 12 3/4  | 13    | Company manufactures control appliances. Divs. of \$1 appear reasonably safe.                                 |
| General Electric.....        | 1.99                           | .36  | .39                      | 1.40                 | .35                                | 28 3/8          | 21 1/2  | 26    | Excess profits tax credit is about \$1 a share. Dividends vulnerable.   |
| Master Electric.....         | 3.86                           | .62  | .92                      | 2.40                 | .50                                | 24 1/2          | 20      | 22    | Manufacturer of industrial motors. Lower rate of dividends likely.  |
| Square D.....                | 7.14                           | 1.23   | 1.44                     | 3.00                 | .50                                | 38 3/8          | 28      | 29    | Dividends not likely to equal 1941 payments. Tax credit estimated at about \$1.25.                            |
| Westinghouse Elec. & Mfg.... | 7.21                           | 1.28   | 2.10                     | 5.00                 | 1.00                               | 81 1/4          | 63 1/8  | 72    | Dividends should be at least \$3.50. Tax credit exceeds \$4 a share.  |
| Weston Electrical Inst.....  | 5.84                           | .73  | 1.60                     | 2.00                 | .50                                | 29 1/2          | 23      | 24    | Present rate of divs. appears reasonably assured. Company has modest capitalization.                          |

† Year ending Sept.   ‡ 6 mos. ending Mar. 31.   NA—Not available.

# Another Look At . . .

**AIR REDUCTION — AMERICAN SAFETY RAZOR**

**HOMESTAKE MINING — ST. JOSEPH LEAD**

**WARNER BROS. PICTURES**

## Air Reduction

In the first quarter of the current year sales of air reduction recorded a gain of 40 per cent to \$16,000,000 compared with \$11,000,000 in the same period of 1941. Total income this year, before taxes, amounted to \$4,207,544 compared with \$3,157,942 last year. As a result, however, of substantially increased taxes and provision for contingencies amounting to \$525,000, net amounted to \$1,500,000 compared with \$1,590,251 in the first quarter of 1941. Applied to the 2,713,337 shares of capital stock outstanding, current profits were equal to 55 cents per share, against 58 cents a share in 1941. Demand for the company's oxygen cutting tools and electric welding equipment in all phases of metal fabricating have been greatly stimulated by the war efforts. Further important sales gains are foreshadowed for the balance of the year. Faced with the necessity of absorbing greatly increased taxes, however, the outlook for earnings is not as promising. Based on the average-earnings option, Air Reduction has a tax credit equivalent to about \$1.44 a share, before becoming subject to excess profits taxes. Had the House, Ways and Means Committee's tax proposals been in effect last year, the company's per share earnings would have been reduced to \$1.62 a share, as compared with reported earnings of \$2.62 a share. It is possible, before actual enactment, current tax proposals may be modified to some extent. Otherwise, the probabilities are that earnings of Air Reduction this year will fall somewhat below \$2 a share. In the circumstances, the maintenance of dividends at the rate of 25 cents quarterly, augmented by extras of 25 cents, is open to question. At recent prices around 32, the shares, in relation to prospective earnings and dividends, appear to be selling about in line with other leading chemical issues, and while not to be regarded as a "bargain" the basis for confidence in the longer term prospects appears well founded.

## American Safety Razor

Taxes are not a major factor in current earnings prospects of American Safety Razor. The company's tax credit, based on the average earnings option, amounts to approximately \$1.45 a share, which compares with earnings last year of \$1.27 a share and 73 cents a share

in 1940. Current earnings were off to a good start in the first three months of this year, net of \$152,000 was equivalent to 29 cents per share on the 523,400 shares of stock which comprise the entire capitalization. In the same months of 1941, profits of \$81,000 were equal to 15 cents per share. It is to be doubted, however, that a similar rate of gain will be maintained throughout ensuing quarters. Sales of razors, by Government order, by manufacturers and wholesalers are now confined to the military forces. Also, prices of razor blades have been frozen and competition in this branch of the company's business promises to be even keener than formerly. The latter situation, coupled with the higher costs of materials and labor would seem to presage a decline in current profit margins. Normally, the sales of the company's products in export markets contributes an important part of gross and net, but under present conditions foreign markets are restricted and income from foreign subsidiaries continues subject to heavy foreign taxes and exchange regulations. Last year a dividend of 50 cents a share was paid to stockholders and this rate can probably be duplicated in 1942, on the basis of prospective earnings as they now shape up. Earlier this year it was officially stated that a substantial part of the company's operations were being devoted



to war production, although the nature of such production was not disclosed. Such appeal as may be credited to the shares seems largely of a long term nature in a peace-time setting.

### Homestake Mining

At recent levels of around 38 the shares of Homestake Mining Co. have recovered more than 70 per cent from their 1942 lows of  $22\frac{1}{2}$ . It appears that a part of this recovery may be accounted for by a normal rebound from an over-sold condition, and partly by the preference shown by buyers over the past several weeks for the so-called "peace" stocks. Homestake Mining is the largest domestic producer of gold with production averaging better than 1,000,000 tons annually for some years past. Last year production was nearly 1,500,000 tons from which the company realized an average of better than \$13 a ton. The company's dividend policy has long been a liberal one, and while earnings last year, for example, were equal to only \$2.83 a share, an exceptionally strong financial position permitted the company to disburse \$4.50 in dividends. The latter rate has been maintained thus far in the current year. At the end of 1941, the company reported nearly \$16,000,000 in current assets consisting of over \$7,000,000 cash, some \$7,000,000 in marketable securities, \$1,000,000 in U. S. Treasury bonds and \$1,000,000 represented by ore in transit. Current liabilities were approximately \$3,358,000. With respect to current results, the company will be fortunate if earnings are maintained on a par with 1941. Costs have increased appreciably, taxes will be higher and, in common with other gold mining enterprises, difficulties have undoubtedly been encountered in obtaining an adequate supply of labor. Some reduction in dividends must be considered possible, as a conservative measure, but the shares, from an income standpoint, should continue to provide a dependable medium.

### St. Joseph Lead

Not only is St. Joseph Lead Co. the largest domestic producers of lead, but it is also one of the lowest cost producers. In addition, the company owns important zinc deposits and a small gold mine. Production in all divisions promises to be maintained at capacity levels throughout the current year—which, together with ceiling prices higher than the average which prevailed in 1941, indicates that the company will report a substantial gain in operating profits before taxes. As was the case in 1941, however, the impact of substantially higher corporate taxes will prevent the gains in output and operating profits from being translated into net earnings. Net available for the common stock last year was equivalent to \$2.50 a share, compared with \$2.61 a share in 1940. The company will be afforded some relief from taxes unless, the present law which permits depletion allowances to be charged against earnings, before taxes, is modified. On the whole, it would appear reasonable to anticipate earnings this year sufficiently in excess of the present \$2 dividend rate, to justify maintenance of the 50-cent quarterly payment. The company's financial position is excellent. In relation to the company's long record of profitable operations and im-



*Engineering & Mining Journal.*

portant position in its field, prevailing levels for the shares around 25 would appear to constitute a conservative appraisal of prospective earnings and dividends.

### Warner Bros. Pictures

The motion picture industry seemingly is rather far removed from the war efforts. Yet it has an important role. It is a potent propaganda force and one of the most popular forms of entertainment for men in the armed forces and civilians alike. Box office figures reveal a substantial increase in the public attendance at motion picture theatres and average admission prices are somewhat higher than a year ago. As a result, all the leading producers have shown substantial gains in recent earnings. This was quite contrary to the experience forecast for the industry at the outset of the war. At that time it was believed that the elimination of important foreign markets which normally afford a larger margin of profit than domestic markets, would strike a severe blow at earnings. Judged on the basis of recent earnings of leading producers, the improvement in the domestic field has more than offset the loss abroad. In the year ended August 30, last, Warner Bros. reported earnings equivalent to \$1.36 per share for the common stock, after allowance for preferred dividends, compared with 63 cents a share earned in the preceding fiscal period. Moreover, the upturn has been maintained in the current year to date and for the twenty-six weeks ended February 28, last, earnings of \$2,802,055 were equivalent to 97 cents a share for the common stock after preferred dividends. In the same period of 1941 profits were equivalent to 70 cents a share for the common stock. Previous years of unprofitable operations have piled up an accumulation of unpaid dividends on the preferred shares, amounting to \$33.69 a share on March 1, last. From time to time there have been unofficial reports that the company was contemplating a plan of recapitalization designed to discharge these arrears and pave the way for resumption of common dividends. It is possible, however, that the company will take advan- (Please turn to page 306)

# FOR PROFIT AND INCOME

## Anaconda Out of Debt

For the first time in many years Anaconda Copper is free of all debt. Announcement was recently made that the company had paid off all of its serial bank loans totaling \$10,032,083 and funds were deposited with the trustee sufficient to retire all 4½% debentures on October 1, next. At the end of last March the company's current assets amounted to \$132,000,000, with cash alone of \$90,000,000. This latest picture of financial strength presents a marked contrast with the one shown at the end of 1927. At that time total debt and bank loans of the company and subsidiaries amounted to \$264,822,000. At the depths of the depression outstanding indebtedness was \$109,372,000. Today Anaconda not only ranks as the world's largest producer of copper, but is also a ranking producer of lead and zinc, and a subsidiary American Brass is a leading fabricator of brass and copper products.

## War and United Fruit

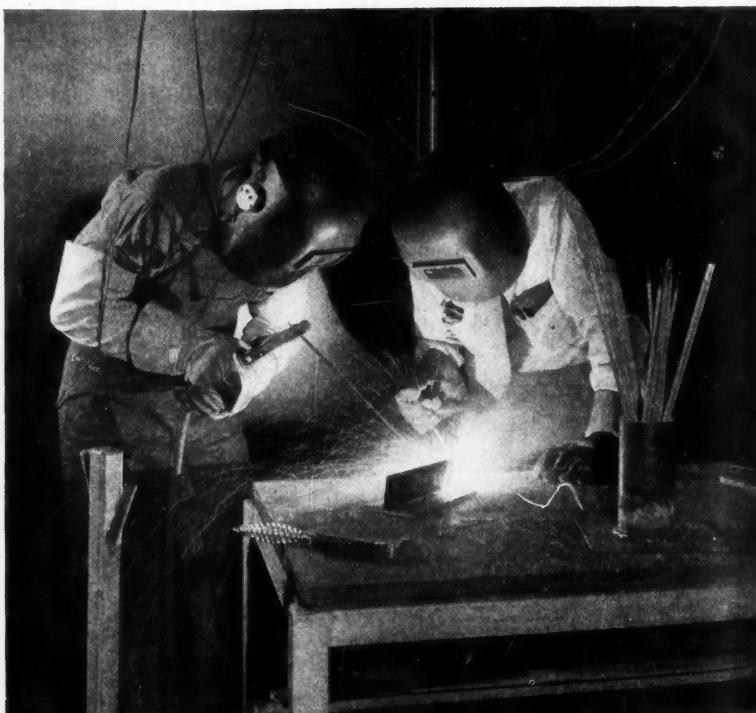
Stockholders of United Fruit have been concerned over possible losses suffered by the company due to submarine sinkings. A number of the company's boats are chartered to the Government, which assumes all marine insurance risks. The same is true in the case of the fleet owned by the English subsidiary, all of

which is now under charter to the British government. The company's banana business has been restricted by the lack of shipping space and the company's boats plying between South and Central America are carrying such vital products as coffee and metal ores. To minimize the

threat of submarines most of the company's cargoes are discharged at Gulf ports and then shipped north by rail. In the circumstances recurring reports that the company has been hard hit by the war appear without any real basis in fact.

## War and the Averages

Of the 30 stocks comprising the Dow-Jones Industrial Average, only four registered a net gain in the six months since Pearl Harbor. The four were: Chrysler, General Motors, International Nickel and Loew's. Of these Chrysler scored the greatest gain, about 15 per cent. The heaviest declines were shown, by Amer. Tel. & Tel., DuPont, General Foods, Standard of New Jersey, Texas Co., and United Aircraft. In no instance did the decline exceed 30 per cent. The biggest loss was shown by Texas, down about 28 per cent, while the smallest loss was shown by Corn Products, off only about 1 per cent in the first six months of war.



One-way telephone system used in "Caterpillar" training course is both safe and efficient. Instructor K. H. Jackson (right), gives advice to apprentice, under the arc. Note wires of telephone system which run from wall box to helmets, through overhead rings.

## Columbia Pictures \$2.75 Preferred

Both the preferred and common shares of Columbia Pictures have made new highs recently, apparently in response to the marked improvement in the company's earnings this year. Gross for the 39 weeks ended March 28, last, was up more than \$4,000,000 and net profit totaled \$942,000 against \$274,765 in the comparable period last year. Applied to the preferred and common shares, net this year was equal to \$12.56 and \$2.15 a share respectively. With dividends on the 75,000 preferred shares being earned by a very comfortable margin, the shares invite favorable consideration for income funds. At recent levels around 28, a yield of better than 9 per cent is indicated.

## "Patch and Pray"

WPB has warned industry to "patch and pray" in an effort to keep its equipment busy. There are, however, many people on the home front who do not yet realize that part of the answer to the shortage of metals and the shortage of rubber and the shortage of all types of materials is scrap—and that scrap is everywhere. The one great remaining source of scrap is in the homes of America. Efforts thus far to make this scrap available to industry have been some less than successful so far. In New York City collection of scrap rubber from private families has fallen far below expectations. If anyone doubts the importance of scrap rubber to our military effort let him consider that the rubber reclaimed from a thousand pairs of rubber galoshes will provide all the rubber needed in a single medium bomber; the rubber in an old tire casing will make 18 pairs of rubber boots; the rubber in an old bicycle tire and tube will provide all the rubber needed in building six military field radio sets or a gas mask. In the next few months everyone will be called on to contribute every possible piece of scrap iron and steel, copper and brass, of zinc, of lead, of aluminum.

## ESTIMATED FIRST QUARTER NET INCOMES OF 481 COMPANIES HAVING COMMON STOCKS LISTED ON THE NEW YORK STOCK EXCHANGE

### —Assembled by Industrial Groups—

|                               | No. of Insurers Listed | No. Reporting To Date | No. Net Profit | No. Showing Improvement | Group Net Income: 1st Quarter 1942 (Combined Incomes Minus Combined Losses) | per cent Change in Group Net Income (1st Quarter 1942 vs. 1st Quar. 1941) |
|-------------------------------|------------------------|-----------------------|----------------|-------------------------|---|---|
| Amusement.....                | 13                     | 8                     | 8              | 3                       | \$3,653,000   | + 0.5%  |
| Automobile.....               | 61                     | 47                    | 46             | 17                      | 47,384,000  | -50.8   |
| Building.....                 | 26                     | 17                    | 16             | 8                       | 6,057,000   | -15.8   |
| Business & Office Equip. .... | 9                      | 7                     | 7              | 4                       | 6,420,000   | -1.4  |
| Chemical.....                 | 66                     | 47                    | 47             | 13                      | 55,086,000  | -20.3   |
| Electrical Equipment.....     | 15                     | 11                    | 11             | 2                       | 18,878,000  | -12.0   |
| Finance.....                  | 29                     | 19                    | 18             | 8                       | 11,438,000  | -13.1   |
| Food.....                     | 55                     | 29                    | 29             | 12                      | 23,957,000  | -20.2   |
| Machinery & Metal.....        | 76                     | 52                    | 51             | 21                      | 19,704,000  | -4.1  |
| Mining.....                   | 34                     | 23                    | 22             | 8                       | 17,305,000  | -14.0   |
| Paper & Publishing.....       | 25                     | 17                    | 16             | 14                      | 11,815,000  | + 2.0   |
| Petroleum.....                | 37                     | 27                    | 25             | 20                      | 35,080,000  | +19.2   |
| Railroad.....                 | 79                     | 53                    | 50             | 31                      | 97,433,000  | +21.7   |
| Retail Merchandising.....     | 65                     | 16                    | 14             | 11                      | 2,776,000   | +43.1   |
| Steel Iron & Coke.....        | 38                     | 33                    | 33             | 8                       | 62,618,000  | -31.9   |
| Textile.....                  | 23                     | 11                    | 10             | 6                       | 6,199,000   | -14.2   |
| All Public Utilities.....     | 47                     | 29                    | 29             | 10                      | 105,837,000   | -10.9   |
| Other Companies.....          | 127                    | 35                    | 33             | 21                      | 29,480,000  | +13.7   |
| Totals.....                   | 825                    | 481                   | 465            | 217                     | \$561,120,000   | -14.3%  |

## Finance Companies

In line with the avowed policy of the government to discourage the forward buying of civilian goods, Chairman Eccles of the Federal Reserve Board has urged all banks and other financing institutions to tighten loan requirements and to do everything possible to accomplish this end. Retail credit men have been advised that there was to be no immediate changes in the regulations affecting their business, but it is apparent that forward buying of all non-essential materials will be increasingly frowned upon by the Government as part of the program to control the price structure and to see that there is no unwarranted hoarding by either individuals or business organizations. It is a pretty safe bet that the down-trend in business loans which has been apparent recently will not be soon reversed.

## Paperboard Manufacturers

One of the early "shortages" of the war was in paperboard, or at least that was what the public was led to

believe. There probably was a shortage for a while, what with the heavy demands of the Government superimposed upon the all time record high demand for consumer goods of the type requiring cartons made of paperboard. Now that such companies are largely concentrating on war business, the demand for paperboard has naturally fallen from previous high levels and the industry is faced with a declining number of orders and production way above demand. It feels that the public impression that a shortage of paper exists has had much to do with the present unhealthy situation in the trade and to correct the matter plans a "plenty of paper" advertising campaign. With much to be said in favor of paper for shipping purposes over other types of containers, it looks as though the program will prove successful, although it is to be doubted if the peaks of last year will soon be duplicated.

**BUY  
WAR BONDS**

# *Stockholders' Forum*

## **Management Bonus Systems Are Always Legal, but Sometimes the Amounts Paid Are Not**

If a majority of stockholders, by proxy, ratify a specified management bonus plan—that's that. As a minority stockholder, you may not like it and probably don't; but it's legal, just as legal as for Roosevelt to get more votes than Willkie.

Considering the large remuneration of top officers of most corporations—as well as their reputations and responsibilities—one is naturally inclined to assume that authorized bonus plans are properly and fairly administered. In the great majority of cases they no doubt are.

But in several instances court decisions on litigation brought by minority stockholders have held that, while the particular bonus plans were valid, the payments made to officers under them were over-calculated.

Recently the New Jersey Court of Errors and Appeals sustained a lower court decree holding that the officers and directors of the Breeze Corporation had mismanaged its affairs for their own benefit. This is a relatively obscure company. One is not unduly surprised by occasional instances of that kind.

But a few weeks before that the newspapers had reported a decision by Judge Vincent L. Leibell in United States District Court holding that eight present or former executives of the General Motors Corporation had improperly managed its bonus funds and made unauthorized distributions of its stock. The defendants were ordered to reimburse the corporation to the total extent of \$4,348,044, plus interest charges estimated at \$2,222,000. Press accounts stated that the decision would be appealed.

Another instance was a stockholders' suit which resulted some time ago in a judgment, by Supreme Court Justice Collins, of \$2,168,023 against five directors of American Tobacco Company in favor of the company. The court held that the defendants had received excessive remuneration over a long period of years, partly because of "misinterpretation" by the company's treasurer of a section of the company's by-laws.

Last December the Supreme Court of New York entered a judgment against President Grace and certain other directors of Bethlehem Steel Corporation in the aggregate amount of \$876,779, with interest aggregating \$229,042, as a result of litigation instituted by certain stockholders in behalf of the corporation. The company prior to Feb. 26, 1936 had made certain payments in settlement of litigation attacking its executive bonus system as it was in effect prior to July 1, 1931, and its administration. The court sustained contention of

stockholders in the recent litigation that the defendant officers should themselves have made part of the settlement payments in the earlier litigation.

### **Progress Report**

For us to write individual replies to the hundreds of letters we have received from stockholders would be a very considerable job, as you no doubt can appreciate. So please accept this statement as a general and grateful acknowledgment.

Many of you ask what we propose to do. Frankly, our objectives are necessarily tentative. We know what we would like to do. We would like to lead, or aid so far as we can, in establishing an organization of stockholders, supported by a sufficiently large number of actively interested members so that it could have a really effective voice.

But it shouldn't be necessary to remind you that we can't wave a magic wand and pull such an organization out of our hat.

Why is it that the American Federation of Labor is so powerful and effective? It is not because a man named Green heads it. Its real strength comes from the bottom—from several millions of union workers, close-knit in common economic interest. Investors also have a common interest—but whether it is sufficiently dynamic to make possible their effective organization remains to be seen.

No "top leadership" can do this job by itself. No numerically inadequate group of individuals can do it. Even to "start small"—with justified hope of growing into something more than just another abortive movement—it will require the active support of a nucleus of many hundreds, and preferably several thousands—of interested investors. Without this support, it would be pointless to select a chairman, raise funds, hire a secretary and publicity man. Without it, we could have only the form of organization, not the substance.

What do we propose to do? That's up to you—to the thousands of stockholders who subscribe to this publication—to other investors that you know and might be able to interest in the goal of effective organization.

So—what are you going to do? A postcard is sufficient to let us know whether you are really interested. If enough of you are, we'll shape our plans accordingly. If not, we will continue doing the best we can to fight for your rights on our own initiative and in our own way.

# Stockholders' Forum

If we can judge by the examples cited here, managerial "misinterpretation" of the financial rights and responsibilities of company officers seems always to work out to the pocketbook advantage of said officers—never by any chance to the advantage of stockholders. Three of the companies cited here are among the largest and most prominent in the country. Only the alertness and persistence of certain minority stockholders uncovered questionable administrative actions or practices, and brought the issues involved to court decisions.

Now very few minority stockholders are either alert or persistent in matters of this kind. They see those impressive-looking statements by independent public accounting firms, which always accompany annual corporate reports, and just take it for granted that every aspect of financial administration is strictly "according to Hoyle." One bad apple can spoil the barrel. The unfortunate effect of cases of the kind cited here goes far beyond the particular managements involved. It raises a natural and legitimate conjecture in the minds of absentee stockholders as to how many other *undetected* instances of wrongful financial administration—or "misinterpretation" in favor of insiders—there may be.

For ourselves, we are quite sure that the great majority of corporate executives are honest and responsible men; and we don't believe for a minute that the top officers of General Motors, American Tobacco and Bethlehem Steel *deliberately connived* at financial mis-administration or mal-administration. But we are equally sure that the existing machinery of corporate administration does not and cannot provide adequate representation to, and protection for, the rights of the thousands of widely scattered and usually small stockholders.

What is needed, of course, is corporate democracy in fact, rather than in mere legal form. Who is going to promote it? Not the corporate managers. Being quite human, they prefer to maintain their relatively comfortable status quo in relations with stockholders. It could be the Government—but most of us, including stockholders and company managers, don't want any more Government regulation than we can possibly avoid. Which leaves the problem to the initiative of the stockholders—including you. Can it be solved? Not if 99 stockholders out of every 100 continue waiting for somebody else to do something about it.

## What Sacrifice by Executives?

"As one of your subscribers for a number of years I wish to compliment you upon your Stockholders' Forum; from the stockholder's interest it is one of the most

### For Investor Organization

"I was very glad to see your article in the May 16th issue. It is time to awake the great political power of Investors large and small.

"Even part of their millions, IF ORGANIZED to procure respect for their votes, could prevent such immense losses we have been caused by the 'Holding Company' legislation, entry of the Government into business and *much* other harmful legislation. They also could have an influence in shaping fair tax legislation. We have simply accepted meekly and silently all the legislation promoted by so-called 'Liberals' and 'Reformers'.

"IN UNION THERE IS STRENGTH". Labor Unions and Farm Organizations prevent unfavorable legislation and secure billions in benefits. Even the few silver producing States by legislative pressure doubled the normal price of their product and induced the Government to expend hundreds of millions for metal it has no use for.

"A Union of Investors would be far more powerful. This would establish a sense of confidence that would release billions in funds now imprisoned by fear and be a boon not only to Investors but also to *all* financial interests and to the Nation.

"As part of a National Association, regional or state branches might be desirable to handle matters that affect their interests before local legislatures or public boards. You can do no greater service to your Country than to use every effort to the above end."

FREDERICK S. HARDY,  
West Newton, Mass.

worthwhile undertakings your magazine has attempted.

"During the last few years, as a stockholder in a number of large corporations, I have been asked to approve retirement plans for executives who are already receiving, what appears to be more than adequate compensation. I have always voted against this procedure which seemed to me to be an instance of where Management was using the assets of the corporation to assure them an income even after they no longer rendered any services, but, most all of the plans have been put into force.

"I feel that your Magazine could render a real service if your staff was to prepare an article which would familiarize the stockholders with the workings of these plans and what bearing they have upon the corporation earnings now and later on when more of the executives have chosen to retire. In times like this when taxes to meet the war cost must be levied and dividends reduced, the stockholder wonders what if any sacrifice Management is willing to make."

JOHN D. BRUMBAUGH, M.D.,  
Akron, Ohio.

# *Stockholders' Forum*

## **Citing the Obstacles**

"I am interested in the article 'Upholding Stockholders' Rights.'—Mr. Stern writes of 13,000,000 individual stockholders, exceeding the combined membership of the C. I. O. and A. F. L., as well as the total number of farmers. I am not questioning this estimate, but I am afraid that the figures do not represent the possible organized power of these groups. The average member of the C. I. O. and the average farmer looks to his job or his farm for practically all his income. On the other hand many stockholders are professional men, or business men (or even farmers) who may buy securities partly for regular income, partly for possible appreciation, partly as a private old age retirement fund. But the income of such investors obtained from their securities, though it may be of great importance to them, is not their primary source of income; and they are often disinclined to battle for it as the union workman would for his wages. Further, while the laborer usually has but one job, and the farmer one farm, the investor's interests are likely to be scattered among a number of corporations, so that the investor may not be able to center his interests as the laborer or farmer can. Now this is not to imply that stockholders could not organize effectively; but they should recognize these drawbacks, and overcome them, perhaps through a better understanding of their common problems than other groups might have.

"I think one great trouble of the stockholder situation is that the small investor feels somewhat helpless. His knowledge of the affairs of the corporation comes through the officers who are elected by the directors for whom proxies are asked. He generally has no independent source of information, no means of making any check of the desirability of the policies recommended.

"Tremendous executive salaries (often widely publicized), particularly when such salaries are maintained through periods when the stockholders get little or nothing, I think have helped to put corporations in a bad light with the general public. Even if such salaries amount to but a modest per cent of total profits, officers could often improve the public standing of their corporations if they were a little less greedy.

"It is easy to see many things that are wrong with the stockholder situation. Publicity will do something. Let's have facts and free discussion. But what more, if anything, do you propose?"

A. M. WOLFENDEN,  
Berkeley, Cal.

## **For Local Start in Organization**

"We all agree 100 per cent with Mr. J. W. Sanders' letter in your issue of May 30th, and hope that he is doing something to create such an organization. If so I will be pleased to send a contribution to him for use in the organization expenses.

"At least one local organization should be created in each congressional district, with a paid secretary competent to carry on the work required and to give the representation we might need from time to time. His big job would be to maintain membership.

"The real work would have to be done by a national organization set up to supervise the local groups; follow legislation and assist minority stockholders secure fair treatment and honest management.

"Such an organization functioning would do much to restore values for stockholders; create confidence in management and conserve the life savings of many people now beyond the productive age.

"Stockbrokers should also have a real interest in establishing such an organization, if they expect to remain in business much longer. In fact, they are the people to do the ground-work for such an organization or at least render much assistance in its establishment."

F. K. WOODRING,  
Clearwater, Fla.

## **Fears for the Capitalist System**

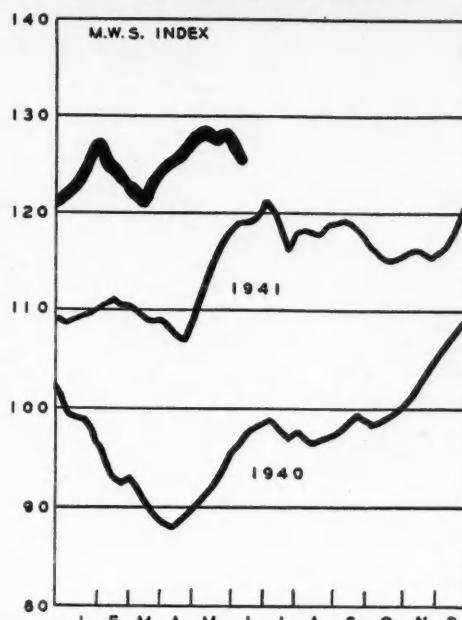
"I read with a great deal of interest your editorial in reference the high salaries being paid executives. I hardly agree with everything you state but believe a good article pointing out the many cases, as recently published by the 'Investor's Union,' would have a great influence in the right direction.

"I seldom sign a proxy but usually write the company a letter stating that I am not in sympathy with present management, particularly the high salaries, bonuses, pension systems, etc. I realize that these letters seldom get to the proper authority for attention as to most of them I do not receive any reply. Those who reply always point out that this is necessary in order to keep their present organization intact and also point out the few cents per share in order to pay these large salaries.

"I think you should place as much stress on the large salaries as you do on taxation as they are both contributing factors toward lowering dividends to stockholders and there is no doubt that the high salaries will be a contributing factor toward ruining the entire capitalistic system."

E. F. HEMMINGER,  
Upper Darby, Pa.

## BUSINESS ACTIVITY



## CONCLUSIONS

**INDUSTRY**—First quarter earnings better than reported. Five-months' dividends were 1% above last year; though off 7% in May.

**TRADE**—Retail store sales in April were 3% below last year; but non-durable goods rose 16%.

**COMMODITIES**—Commodity situation uncertain due to pending legislation.

**MONEY AND CREDIT**—Federal Reserve Board urges tighten credit restrictions to curb civilian purchases.

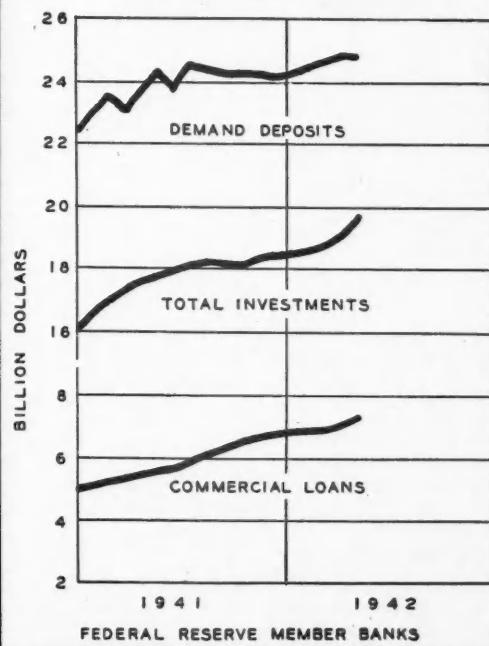
# The Business Analyst

Per capita **business activity** has receded more than two points during the past fortnight, despite somewhat better than normal seasonal gains in bituminous coal production and car-loadings. **Lease-Lend** aid extended during the fifth three-month period ended May, 1942, is valued at \$1.9 billion, making a 15-month total of \$4.5 billion, or 12% of our total war effort. Included in the \$4.5 billion are \$2.14 billion worth of war material exported, \$0.23 billion awaiting transfer, \$0.84 in process of manufacture and \$157 million spent in servicing and repairing ships and other implements of war in U. S. ports.

\* \* \*

A compilation by the National Industrial Conference Board shows that first quarter net of 270 industrial corporations, after reserves for taxes and contingencies, was 25% under the like period of 1941. We find upon further analysis, however, that if tax reserves had been computed upon the basis of the House Ways and Means Committee's latest proposals, which call for an average increase of only 31.6% over last year, first quarter profits would have been only 8% lower than in the first three months of 1941. Furthermore, if contingency reserves in both years had been charged to surplus instead of current income, (Please turn to following page)

## BUSINESS CREDIT



## Business and Industry

|  | Date | Latest Month | Previous Month | Last Year | PRESENT POSITION AND OUTLOOK |
|--|------|--------------|----------------|-----------|------------------------------|
| <b>INDUSTRIAL PRODUCTION (a)</b>           | May  | 176          | 173            | 154       |                              |
| <b>INDEX OF PRODUCTION AND TRADE (b)</b>   | Apr. | 110          | 110            | 106       | Continued from page 297      |
| Production                                 | Apr. | 120          | 120            | 109       |                              |
| Durable Goods                              | Apr. | 130          | 129            | 114       |                              |
| Non-Durable Goods                          | Apr. | 112          | 112            | 105       |                              |
| Primary Distribution                       | Apr. | 107          | 104            | 98        |                              |
| Distribution to Consumers                  | Apr. | 89           | 93             | 105       |                              |
| Miscellaneous Services                     | Apr. | 113          | 114            | 101       |                              |
| <b>WHOLESALE PRICES (h)</b>                | Apr. | 98.8         | 97.6           | 83.2      |                              |
| <b>COST OF LIVING (d)</b>                  | May  | 97.3         | 97.1           | 87.4      |                              |
| All Items                                  | May  | 99.1         | 98.8           | 82.2      |                              |
| Food                                       | May  | 91.1         | 91.0           | 88.0      |                              |
| Housing                                    | May  | 88.6         | 88.4           | 73.6      |                              |
| Clothing                                   | May  | 90.5         | 90.1           | 86.4      |                              |
| Fuel and Light                             | May  | 104.2        | 104.1          | 98.5      |                              |
| Sundries                                   | May  | 102.8        | 103.0          | 114.4     |                              |
| Purchasing Value of Dollar                 |      |              |                |           |                              |
| <b>NATIONAL INCOME (cm)†</b>               | Apr. | 8,784        | 8,693          | 7,147     |                              |
| <b>CASH FARM INCOME†</b>                   | Mar. | 891          | 810            | 610       |                              |
| Farm Marketing                             | Mar. | 1,097        | 1,235          | 754       |                              |
| Including Gov't Payments                   | Apr. | 150          | 146            | 110       |                              |
| Prices Received by Farmers (ee)            | Apr. | 151          | 150            | 124       |                              |
| Prices Paid by Farmers (ee)                | Apr. | 99           | 97             | 85        |                              |
| Ratio: Prices Received to Prices Paid (ee) |      |              |                |           |                              |
| <b>FACTORY EMPLOYMENT (f)</b>              | Apr. | 147.7        | 146.9          | 126.3     |                              |
| Durable Goods                              | Apr. | 123.0        | 123.1          | 118.0     |                              |
| Non-durable Goods                          |      |              |                |           |                              |
| <b>FACTORY PAYROLLS (f)</b>                | Apr. | 186.4        | 182.9          | 134.7     |                              |
| <b>RETAIL TRADE</b>                        | Apr. | 4,465        | 4,340          | 4,626     |                              |
| Retail Store Sales \$†                     | Apr. | 103.5        | 108.4          | 166.2     |                              |
| Durable Goods (a)                          | Apr. | 147.7        | 148.9          | 127.7     |                              |
| Non-durable Goods (a)                      | May  | 170          | 164            | 132       |                              |
| Chain Store Sales (g)                      | Apr. | 113.4        | 112.5          | 95.5      |                              |
| Retail Prices (s) as of                    |      |              |                |           |                              |
| <b>FOREIGN TRADE</b>                       | Apr. | \$682        | \$609          | \$385     |                              |
| Merchandise Exports†                       | Apr. | 2,249        | .....          | 1,370     |                              |
| Cumulative year's total† to                | Mar. | 252          | 239            | 255       |                              |
| Merchandise Imports†                       | Mar. | 747          | .....          | 695       |                              |
| Cumulative year's total† to                |      |              |                |           |                              |
| <b>RAILROAD EARNINGS</b>                   | Apr. | \$540,280    | \$572,515      | \$375,008 |                              |
| Total Operating Revenues*                  | Apr. | 360,151      | 366,781        | 274,938   |                              |
| Total Operating Expenditures*              | Apr. | 74,532       | 88,895         | 37,040    |                              |
| Taxes*                                     | Apr. | 92,355       | 101,995        | 52,074    |                              |
| Net Rwy. Operating Income*                 | Apr. | 66.66        | 64.06          | 73.32     |                              |
| Operating Ratio %                          |      |              |                |           |                              |
| <b>STEEL</b>                               | May  | 7,387        | 7,122          | 7,045     |                              |
| Ingot Production in tons*                  | Mar. | 5,113        | 4,458          | 4,704     |                              |
| Pig Iron Production in tons*               | Apr. | 1,759        | 1,781          | 1,688     |                              |
| Shipments, U. S. Steel in tons*            |      |              |                |           |                              |
| <b>GENERAL</b>                             | Mar. | 542,432      | 508,272        | 543,988   |                              |
| Paperboard, new orders (st)                | Mar. | 109          | 93             | 57        |                              |
| Machine Tool Output (millions of \$)       |      |              |                |           |                              |
| Railway Equipment Orders (Ry)              | Feb. | 169          | 25             | 127       |                              |
| Locomotives                                | Feb. | 11,085       | 8,479          | 5,645     |                              |
| Freight Cars                               | Feb. | .....        | .....          | 45        |                              |
| Passenger Cars                             | Apr. | 17,380       | 17,016         | 15,854    |                              |
| Cigarette Production†                      | Apr. | 49,000       | 47,400         | 5,975     |                              |
| Bituminous Coal Production* (tons)         | Apr. | 14,774       | 12,562         | 14,132    |                              |
| Portland Cement Shipments* (bbls.)         | Apr. | 938          | 1,048          | 1,149     |                              |
| Commercial Failures (c)                    |      |              |                |           |                              |

Continued from page 297

the decline would have been only 1%. The Treasury has made an eminently fair suggestion to Congress that companies not using the "last-in-first-out" method of valuing inventories be authorized to compute profits on the basis of replacement cost, for the duration and at least five years thereafter. Effect of this would be to reduce both war profits and post-war losses. Dividends declared during May were 7% less liberal than last year, compared with a five-months' increase of 1%.

\* \* \*

Regardless of longer range possibilities for inflation, the fact should be noted that prices for basic commodities have not only stabilized this year but, in many instances, been noticeably reactionary. Our own index of raw material prices is 1½ point below its January peak and only 6% above last year. Of the 14 components, two—hides and wool—are lower than a year ago; while four—pig iron, copper, tin and petroleum—are virtually unchanged. The largest advance within the past twelve months has been in cotton, which is up 34% despite an 8% reaction from its April peak. Other declines from the 1942 peaks include wheat, 12%; corn, 8%; oats, 18%; rye, 32%; butter, 7% and eggs, 16%. Wool is in ample supply for both military and civilian needs, and a glut is threatening in evaporated milk owing to shift to powdered milk which requires only a fourth of the ship spaces and no cans. As to other price levels: wholesale prices, other than foods and farm products, are 9% above last year; retail prices are up 18%, and living costs, 11%.

\* \* \*

New orders booked by manufacturers during April were 49% ahead of last year, with durable goods up 62%, and nondurables 35%. Shipments during April were on a level with March, but 35% ahead of last year. Retail store sales during April were 3% below last year in value, a 16% rise in nondurable goods having been outweighed by a 37% drop in durables. Chain store sales during May were only 3% ahead of last year, compared with an 18% increase for five months; variety stores reporting a rise of 11%, against 17% for five months; and mail order sales declining 18%, against a five-months' gain of 6%. Department store sales in the week ended June 6 were 7% above last year, against increases of 9% for four weeks and 16% for the year to date. Department of Commerce estimates that the physical volume of goods sold at retail in the 1943 fiscal year will be about \$10 billion, or 20%, smaller than in the current fiscal year, by far the major portion of the decline taking place during the first half of the 1943 calendar year.

\* \* \*

The National Industrial Conference Board estimates unemployment for April at only 1.75 million, compared with 3.5 million in March and 4.75 million at mid-April, 1941. Total employment around mid-April, including men in the armed forces, is estimated at 53.38 million, against 51.64 million in March and 49.88 million for April of last year.

## WEEKLY INDICATORS

|   | Date    | Latest Week | Previous Week | Year Ago | PRESENT POSITION AND OUTLOOK |
|---|---------|-------------|---------------|----------|------------------------------|
| <b>M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100.....</b> | June 13 | 125.0       | 126.4         | 119.1    |                              |
| <b>ELECTRIC POWER OUTPUT</b><br>K. W. H.†.....              | June 13 | 3,463       | 3,372         | 3,101    |                              |
| <b>TRANSPORTATION</b><br>Carloadings, total.....            | June 13 | 832,726     | 854,689       | 862,974  |                              |
| Grain.....  | June 13 | 34,686      | 35,871        | 37,006   |                              |
| Coal.....   | June 13 | 166,341     | 163,734       | 158,621  |                              |
| Forest Products.....  | June 13 | 48,261      | 53,319        | 42,403   |                              |
| Manufacturing & Miscellaneous.....                          | June 13 | 377,207     | 385,356       | 368,626  |                              |
| L. C. L. Mdse.....  | June 13 | 94,556      | 97,587        | 159,607  |                              |
| <b>STEEL PRICES</b><br>Pig Iron \$ per ton (m).....         | June 16 | 23.61       | 23.61         | 23.61    |                              |
| Scrap \$ per ton (m).....                                   | June 16 | 19.17       | 19.17         | 19.17    |                              |
| Finished c per lb. (m).....                                 | June 16 | 2.305       | 2.305         | 2.305    |                              |
| <b>STEEL OPERATIONS</b><br>% of Capacity week ended (m).... | June 20 | 99.5        | 99.0          | 99.5     |                              |
| <b>PETROLEUM</b><br>Average Daily Production bbls.★.....    | June 13 | 3,700       | 3,602         | 3,822    |                              |
| Crude Runs to Stills Ave. bbls.★.....                       | June 13 | 3,478       | 3,451         | 3,782    |                              |
| Total Gasoline Stocks bbls.★.....                           | June 13 | 91,994      | 93,305        | 91,431   |                              |
| Fuel Oil Stocks bbls.★.....                                 | June 13 | 78,759      | 79,556        | 91,700   |                              |
| Crude—Mid-Cont. \$ per bbl.....                             | June 19 | 1.17        | 1.17          | 1.17     |                              |
| Crude—Pennsylvania \$ per bbl.....                          | June 19 | 2.55        | 2.55          | 2.23     |                              |
| Gasoline—Refinery \$ per gal.....                           | June 19 | .092        | .092          | 0.08     |                              |

It looks now as though the peak in carloadings this year may be reached within less than two months, at a level somewhat under a million cars weekly, instead of during the autumn as in former years, thereby removing the bugaboo of car shortage. This achievement has been made possible by more efficient utilization of freight cars, forward buying of coal and other winter-time civilian needs, completion of war plant construction and a smaller movement of grain to storage and for export.

\* \* \*

Owing to material shortages, it is now expected that only two-thirds of the contemplated 10,000,000 ton expansion in steel and pig iron production facilities will be undertaken.

\* \* \*

WPB has authorized construction of an RFC-financed pipe line, to be completed within six months, for delivering 250,000 barrels of oil daily, from Longview, Texas, to Salem, Illinois, from which point distribution to the eastern seaboard will be by tank car and truck. Meanwhile, oil industry's earnings are being hurt by higher taxes and transportation costs, reduced gasoline demand, and Government efforts to boost fuel oil output at expense of gasoline. Up to present writing, no decision has been reached as to nation-wide rationing of gasoline.

†Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreet. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (h)—U. S. B. L. S. 1926—100. (i)—Adjusted—1929-31—100. (m)—Iron Age. (n)—1926—100. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1935-39—100. (p)—Polk estimates. (pc)—Per Cent of capacity. (pl)—Preliminary. (r)—Railway Age. (s)—Fairchild Index, Dec., 1930—100. (st)—Short tons.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

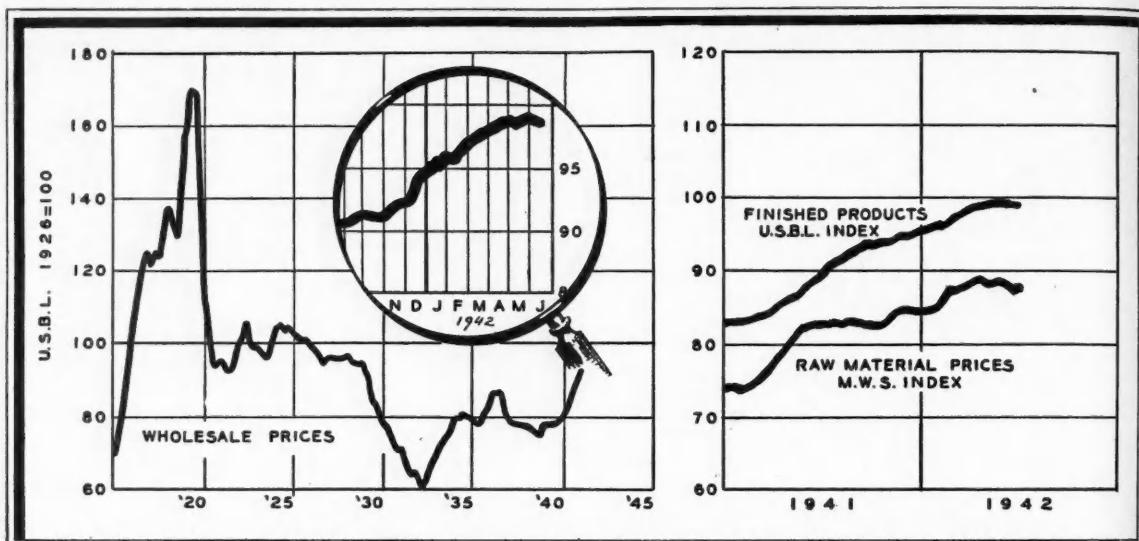
| No. of<br>Issues               | (1925 Close—100) | 1942 Indexes |       |         |                                | 1942 Indexes               |       |        |         |         |
|--------------------------------|------------------|--------------|-------|---------|--------------------------------|----------------------------|-------|--------|---------|---------|
|                                |                  | High         | Low   | June 13 | June 20                        | (Nov. 14, 1936, Cl.—100)   | High  | Low    | June 13 | June 20 |
| 270 COMBINED AVERAGE.....      |                  | 48.6         | 41.4  | 43.8    | 43.6                           | 100 HIGH PRICED STOCKS.... | 51.96 | 43.20  | 46.29   | 46.36   |
| 100 LOW PRICED STOCKS....      |                  |              |       |         |                                | 100 LOW PRICED STOCKS....  | 38.78 | 31.66  | 33.62   | 33.60   |
| 3 Agricultural Implements..... | 84.7             | 72.7         | 83.1  | 83.5    | 3 Liquor (1932 Cl.—100)....    | 164.7                      | 137.5 | 156.7  | 164.7A  |         |
| 9 Aircraft (1927 Cl.—100)....  | 172.6            | 123.8        | 125.8 | 127.6   | 8 Machinery.....               | 83.8                       | 67.9  | 73.2   | 72.7    |         |
| 4 Air Lines (1934 Cl.—100).... | 245.0            | 178.4        | 238.6 | 231.0   | 2 Mail Order.....              | 55.3                       | 45.2  | 53.8   | 54.6    |         |
| 5 Amusements.....              | 32.0             | 27.0         | 31.0  | 31.3    | 4 Meat Packing.....            | 46.0                       | 30.5  | 33.8   | 30.5k   |         |
| 13 Automobile Accessories....  | 79.3             | 70.4         | 72.1  | 72.0    | 9 Metals, non-Ferrous.....     | 131.7                      | 100.0 | 100.0a | 105.5   |         |
| 13 Automobiles.....            | 9.7              | 7.1          | 8.6   | 8.4     | 3 Paper.....                   | 10.2                       | 9.1   | 9.3    | 9.1c    |         |
| 3 Baking (1926 Cl.—100)....    | 6.1              | 5.0          | 5.5   | 5.3     | 21 Petroleum.....              | 74.6                       | 59.8  | 63.2   | 64.6    |         |
| 3 Business Machines.....       | 101.9            | 81.7         | 101.4 | 101.9A  | 16 Public Utilities.....       | 19.1                       | 13.8  | 15.2   | 14.6    |         |
| 2 Bus Lines (1926 Cl.—100).... | 64.6             | 38.2         | 51.9  | 49.8    | 3 Radio (1927 Cl.—100)....     | 7.7                        | 5.9   | 7.6    | 7.7     |         |
| 6 Chemicals.....               | 156.3            | 126.3        | 133.9 | 133.9   | 7 Railroad Equipment.....      | 37.8                       | 28.8  | 28.8d  | 28.8    |         |
| 14 Construction.....           | 19.6             | 16.4         | 17.8  | 18.1    | 16 Railroads.....              | 9.9                        | 7.6   | 7.7    | 7.6     |         |
| 5 Containers.....              | 163.1            | 138.4        | 160.9 | 158.0   | 2 Realty.....                  | 1.9                        | 1.3   | 1.6    | 1.7     |         |
| 8 Copper & Brass.....          | 75.1             | 58.6         | 60.0  | 61.7    | 2 Shipbuilding.....            | 112.0                      | 85.3  | 88.1   | 85.3c   |         |
| 2 Dairy Products.....          | 27.8             | 25.5         | 27.1  | 27.3    | 12 Steel & Iron.....           | 65.0                       | 53.1  | 53.8   | 54.0    |         |
| 6 Department Stores.....       | 16.3             | 12.4         | 13.5  | 13.1    | 2 Sugar.....                   | 40.1                       | 27.7  | 29.2   | 28.1    |         |
| 6 Drug & Toilet Articles....   | 43.5             | 37.1         | 43.5  | 37.1    | 2 Sulphur.....                 | 179.4                      | 137.5 | 156.3  | 151.0   |         |
| 2 Finance Companies.....       | 132.4            | 99.5         | 124.8 | 128.4   | 3 Telephone & Telegraph.....   | 41.1                       | 30.6  | 39.7   | 38.2    |         |
| 7 Food Brands.....             | 78.6             | 60.6         | 67.7  | 69.0    | 2 Textiles.....                | 34.2                       | 24.4  | 28.2   | 27.3    |         |
| 2 Food Stores.....             | 43.7             | 32.2         | 37.4  | 40.0    | 3 Tires & Rubber.....          | 11.5                       | 7.9   | 11.4   | 11.2    |         |
| 4 Furniture.....               | 29.1             | 23.7         | 29.1A | 28.8    | 4 Tobacco.....                 | 55.3                       | 40.7  | 49.9   | 49.4    |         |
| 2 Gold Mining.....             | 455.9            | 315.4        | 442.7 | 421.5   | 2 Variety Stores.....          | 187.2                      | 147.7 | 170.8  | 170.6   |         |
| 6 Investment Trusts.....       | 16.5             | 13.8         | 15.2  | 15.4    | 19 Unclassified (1941 Cl.—100) | 109.9                      | 90.8  | 99.9   | 98.0    |         |

A—New HIGH this year. New LOWS since: a—1941; b—1940; c—1939; d—1938; k—1933.

## Trend of Commodities

Uncertainty over agricultural legislation was reflected in the grain market during the past fortnight. Grain prices made fractional gains on the Chicago Board of Trade after irregular movement in response to conflicting reports on government aims and activities. This uncertainty is expected to continue until the farm supply bill is enacted into law. Taking the situation on a broad basis trade buying bolstered leading commodity futures toward the end of the fortnightly period. Prices edged forward at the same time trading slackened on advances. Mill prices fixing dominated trading in cotton where gains of 13 to 15 points were estab-

lished. The cotton market was responsible for the slight up-trend in cotton prices. Sentiment in Washington with regard to loans on major crops of full parity, faced fluctuations in the cotton futures during the past week. Conflicting reports on the Administration's stand on proposed legislation caused considerable fluctuation. However, active contracts on the New York Cotton Exchange ended the period with net gain of 16 to 18 points, following increases of 15 to 19 points in the previous week and a decline of 100 to 112 points in the week prior to that. Wheat upped  $\frac{1}{8}$  cent, with a better tone in cotton helpful.



**U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES  
Spot Market Prices—August, 1929, equal 100**

|                            | June 12 | June 19 | June 12                     | June 19 |
|----------------------------|---------|---------|-----------------------------|---------|
| 28 Basic Commodities ..... | 166.4   | 166.6   | Domestic Agricultural ..... | 181.2   |
| Import Commodities .....   | 163.0   | 163.0   | Foodstuffs .....            | 185.5   |
| Domestic Commodities ..... | 168.7   | 168.9   | Raw Industrial .....        | 153.2   |
|                            |         |         |                             | 179.8   |
|                            |         |         |                             | 185.1   |
|                            |         |         |                             | 153.7   |

### Commodity Briefs

**Rubber.** Scrap rubber campaign got under way in an effort to determine how great a supply of rubber is available on the nation's scrap heap. The oil industry donated its services as a collecting agency and 400,000 filling stations acted as depots paying 1c a pound for the scrap.

**Copper.** Production of domestic copper mines set a new high in May at 101,083 tons, compared with 94,295 tons in April and 95,650 tons in May, 1937.

**Cotton.** Usage of cotton during May is estimated at 960,000 bales against 998,000 in April and 923,000 in May, 1941.

**Zinc.** Production was well maintained at maximum levels during May the daily output being virtually unchanged at 2,564 tons. Total output for the month of 79,849 tons, which was about 2,450 tons higher than in April, due to the one extra day in May.

**Butter.** Production is flirting with the seasonal peak. Summer months always result in a decline. The rise of 1% in the week of June 4 was the smallest since February. There is no price ceiling on milk products.

**Beet Sugar.** Producers face a serious shortage of labor in harvesting the 1942 crop, according to W. N. Wilds, president, American Crystal Sugar Company. The California industry, he said, is negotiating with Washington to bring field hands from New Mexico and Old Mexico.

**Coal.** Anthracite miners will be asked to accept extra pay in lieu of their 10-days vacation this year as a contribution to war production. If the proposal is ratified the mines will not shut down during the normal June 26, July 7 shutdown period provided in standard wage contracts.

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities*.
3. No inquiry will be answered which does not enclose stamped, self-addressed envelope.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

## Life Savers

*Is the recent disappointing market performance of Life Savers shares attributable mainly to the threat to production caused by sugar shortage? With much larger inventories on hand, however, and possibility of the sugar situation improving, would you advise adding to my 75 shares (acquired at about 27) at current prices . . . in anticipation of a rise? Or will increased taxes act as a deterrent? I have heard the opinion that present prices over-discount the unfavorable factors in this picture. What is your advice?*  
—E. M. F., Philadelphia, Pa.

The sugar shortage doubtless presents a problem to Life Savers Corp. as is true of the confectionery industry generally; but it is not believed that this situation will persist indefinitely and in the meantime the company is favored by a large low-cost inventory which should stand it in good stead over the period ahead. Moreover, the sugar shortage is mainly one of shipping and this transport problem is currently being met in part by greatly increased rail deliveries from the Gulf ports. In addition, domestic output of beet sugar is scheduled to rise to a considerable extent and this increase in the raw material supply together with restricted general usage indicates that we probably have already witnessed the peak of the shortage and that the supply situation will show gradual improvement especial-

ly as the submarine menace along the East coast is overcome. Probably as much as anything else, the general market situation accounts for the stocks unimpressive performance and this in turn is due to the war and the uncertainties surrounding taxes. Life Savers does not seem especially vulnerable to taxes, however, and based on current indications, the company should be able to comfortably cover its dividend of \$1.60 a share annually. In the initial quarter of this year, the company showed earnings of 73 cents a share on the 350,140 shares of capital stock as compared with 72 cents a share for the same period of the year before. Numerous operating economies have been instituted by the management and these coupled with well sustained sales volume account for the company's ability to increase earnings despite the rise in taxes and other costs. Finances of the organization have been maintained in excellent shape and at the close of last year, current assets stood at \$4,481,724, including cash

and equivalent alone of \$2,095,139, compared with current liabilities of but \$1,274,780. If the proposed taxes of the House Ways and Means Committee are finally adopted whereby the normal and surtax rates could be increased to a total of 40% and the excess profits rate to 94%, it is indicated that earnings of Life Savers would still run around a minimum of \$2 a share annually, or above the recent dividend rate. In view of the past favorable earnings record of the company together with the well secured dividend return, the shares likely will continue to attract good investor demand and we believe that you would do well to maintain your long position in the issue.

## Lehn and Fink

*I have 150 shares of Lehn and Fink, purchased at slightly above present prices. Inasmuch as the return has always been generous I have not worried, but now in view of unfavorable factors in the cosmetic outlook, am wondering if I should sell and get into something with better immediate prospects. What is your appraisal of this company? Do higher costs and taxes constitute a real threat to earnings this year?—J. M. G., Los Angeles, Calif.*

Lehn and Fink Products Corp. produces a number of well advertised and widely distributed cosmetics and proprietary drugs, with Hinds Honey and Almond Cream among the most important of the items handled from a profit and sales standpoint. Lysol disinfectant ranks next in point of sales, with Pebecco toothpaste and Dorothy Gray cosmetics also contributing importantly to the company's earnings under

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Prepaid and Instruct Us to Answer Collect.**

normal conditions. Sales have been largely to the domestic market and it is accordingly not believed likely that the loss of foreign markets as a result of the war is of significance from an earnings standpoint. Indications are that domestic business will be well maintained and while the matter of rising taxes and costs suggest somewhat lower earnings than otherwise, any such decline likely will be held to modest proportions even allowing for the heavier tax burden now in prospect. For the nine months ended on March 31, 1942, the company reported earnings of \$555,500, equal to \$1.38 a share on the 400,000 shares of capital stock, as compared with \$501,956, or \$1.25 a share earned in the like period of the preceding fiscal year. Finances of the company have been well maintained and at the close of the fiscal year ended June 30, 1941, current assets stood at \$2,723,178 with cash of \$623,608 and current liabilities of \$862,940. Dividend policy has been liberal for a number of years with total distributions in 1941 amounting to \$1.60 a share and thus far this year there have been two payments of 35 cents each the last being made on June 12. On the basis of these two quarterly payments, the shares should pay around \$1.40 a share this year although much will depend upon taxes and other costs applying against current operations. The company is fortunate in that sales volume should be well maintained during the war period and despite the prospect for rising taxes, the strong finances and reasonably good earnings prospects suggest that shares held at recent levels will eventually move higher and in the meantime the return is most attractive.

#### Simmons Co.

*I am getting worried about my 125 shares of Simmons Co. stock which cost \$17 per share. While sales have continued to increase and the dividend has been satisfactorily maintained so far, how long can the company keep on replacing its lost "normal" business with government orders on a profitable basis? Have present prices completely discounted the adverse factors in the outlook? Should I buy additional shares to reduce my losses—or shall I switch to a more dynamic issue?—Miss M. C., St. Louis, Mo.*

While Simmons Co. stock is selling well below the high of last year, despite the well sustained sales vol-

ume being reported by the organization, the stock has by no means been weak recently and, as a matter of fact, is quoted only slightly below the year's high of 15½. In 1941 the company enjoyed a record volume of business with the manufacture of war goods superimposed upon a high civilian demand and sales for the year totaled \$62,692,928 as compared with \$42,635,651 the year before. After greatly increased taxes, the company was able to show earnings on the common stock equal to \$3.03 a share which compared with \$2.33 a share earned in 1940. The switch-over from peace to war business has continued during the current year and shipments to the Government during the first quarter amounted to about 50% of the total. In January and February alone, the Government received six times the volume of the preceding comparable interval. During this period civilian demand also continued satisfactory, but it is probable that with the needs of the Government continuing to grow, the company will have to depend increasingly upon such orders for income. Profits will be narrowed, but this will be offset at least in part by the larger business volume likely to be received. In addition to the sale of bedding to meet military requirements, the company is understood to be making ordnance such as bomb casings and shipping boxes for ammunition. It is also preparing to produce shells, and possibly gas masks. This production of strictly war products is being importantly supplemented by normal production of beds and while the latter are going in increased volume to the armed services, such manufacturing can be carried out without difficulty by already installed machinery. Such items include hospital beds, stretchers, berths for troop transports, and numerous specialty metal products used in army and navy bases in this country and abroad. In the textile end of the business, large Government orders are also in prospect and accordingly the company should find its facilities fully employed during the period of the war. After the war, a large backlog of civilian demand should have been built up, auguring well for the longer term. Finances are in good shape, suggesting continued liberal dividends. We favor retention of your present hold-

ings with a view to longer term market possibilities.

#### United Drug Co.

*I understand that there has been some interest lately in United Drug as a long term investment. At its current price (around 5½) the stock appears cheap in relation to earnings—but I am wondering if the newly imposed retail price ceilings may not cause further postponement of the dividend payment anticipated sometime this year. I would appreciate the advice of your analysts on my 175 shares bought at 6½ last year. Do you feel that the recent changes in management portend important progress from now on?—F. M., Short Hills, N. J.*

Operations of United Drug Co. covering the March 31, 1942, quarter, showed a net income equal to 34 cents a common share as compared with 15 cents in the corresponding period a year ago. Taxes, wages and other costs are rising, but moderate price adjustments in certain lines may be sufficient to offset these. United Drug is engaged, through subsidiaries, in the wholesaling and retailing of drugs, sold under trade-names, "Rex-all" and "Pure-Test." Confectionaries, and other products usually sold in drug-stores, as well as rubber sundries, fruit preserves, jellies and other food products and other miscellaneous low-cost articles usually purchased in department stores. Over 600 stores, known as Liggett and Owl drug-stores, are scattered throughout the United States and Canada. Products made by the company are marketed through 11,400 franchised Rexall stores. Important personnel changes took place this year, and is considered an important step in injecting new blood into the company's affairs. Mr. J. W. Dart, formerly a notable success with Walgreen's Co., was appointed as president of the United Drug subsidiary, Liggett Drug Stores. The financial record of United Drug Co. available only since 1933 on a comparable basis, reveals a consistently sound position. Dividend action is doubtful at this time, in view of business uncertainties created by the need for conserving funds for maturing funded debt of \$32,500,000, also for working capital and for increased inventories. Gradual elimination of some Liggett store leases should bring moderate longer term improvement. United Drug Co. as guarantor was compelled to assume

this responsibility; such action has incurred an annual loss of some \$460,000. Buying in this stock for the long pull, has taken place for the past several months at slightly higher prices than now prevailing. The common has some appeal as a low-priced speculation, since it is cheap in relation to earnings. Therefore, retention is advised.

#### American Crystal Sugar

Would you recommend averaging on American Crystal Sugar common at its present price of  $16\frac{3}{8}$ ? I hold 100 shares acquired at  $20\frac{1}{8}$ . I am interested in this stock's possibilities, but would like your appraisal of the entire sugar situation—comparing the outlook for the domestic producers with the foreign producers, considering relative price ceilings, etc. How is this company situated in regard to taxes? Will the proposed tax rates impair its earnings this year?—E. B., Forest Hills, L. I.

American Crystal Sugar Co. is a leading beet sugar producer, owning ten factories in California, Colorado, Iowa, Nebraska, Minnesota, Montana, etc., with daily slicing capacity of more than 17,000 tons of beets and its land holdings total almost 33,000 acres. The company's contracted acreage for the 1942 season amounted to 129,773 acres sown to beets compared to 101,332 acres planted in the 1941 season. The great bulk of the beets processed are bought from other growers on a participating basis. All restrictions on sugar beet acreage for 1942 have been removed and plantings are 28% above those of 1941. Beet sugar price ceilings are well above last year's average price. Good earnings are in prospect for domestic sugar producers as long as the war lasts, as the industry will enjoy sharply expanded volume, due to the making up of imports for war-ravaged areas. For the year ending March 31, 1942, American Crystal Sugar reported net profit equal to \$2.98 per share. While taxes will absorb a larger percentage of revenues, it is believed that per share earnings in the current year will not be far short of the showing in the last fiscal year, in view of the larger volume and higher prices. American Crystal Sugar's financial status is good, with current assets over three times current liabilities. Dividends of 50 cents quarterly are expected to continue. This stock is moderately priced relative to indicated earnings,



# AMERICA ...at home

MILLIONS of Americans these days are finding new sources of happiness, and new resources for the added responsibilities they must assume, in their own homes. Many of these millions are discovering, almost with surprise, what a great satisfaction and joy an American home can be.

A sunlamp may not be very much like a trip to Florida, but it can give an approximate equivalent in golden tan and good health. Automatic heating is not only a great comfort and convenience, it has made the cellar into an additional room. Electric refrigerators, and electric fans, and air conditioners may not be fun in the same sense as a trip to the mountains or the seashore, but they certainly make living at home through the long hot summer days more enjoyable.

It is no accident that so many of these comforts and conveniences, these new-found sources of joy and satisfaction, are electrical. For many years America's electric service companies and American industry have been working to find new ways to place this modern Aladdin's Lamp of electric light and power in every American home. For more than 60 years General Electric has been serving these companies that serve America, developing new and more efficient machinery for making and distributing electricity, and developing new and better appliances to make this electric service more useful in America's homes. General Electric Company, Schenectady, N. Y.

**GENERAL ELECTRIC**

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and also has a good measure of attraction, particularly when one considers the liberal yield. Hence, we recommend retention and also of averaging one's holdings if the shares would not then be held in excessive amount.

## Outlook for Public Utilities in Our War Economy

(Continued from page 287)

directly opposite to the status of many other industries, in which profit per dollar of sales is low, capital turnover rapid, and return on investment high.

Basically, the electric and natural gas divisions of the industry are in the best position as regards potential markets and earning power; the manufactured gas and traction divisions in the poorest position. However, the surviving tractions in some areas are having a temporary comeback, due to the present gasoline and rubber tire situation.

As regards vulnerability to higher taxes, most of the communications utilities are in the same spot as the electric and gas utilities. Although such companies as American Telephone and Western Union can not remotely be said to enjoy political favor, at least they have one thing to be thankful for. They are not, like some of the electric utilities, faced with any threat of Federal "yardstick" competition.

### PART II Prospect for Utility Securities

Many utility securities have had substantial percentage recoveries from the acutely depressed lows made earlier in the year—but recoveries which, as regards holding company preferreds and bonds and all utility equities, represent recoulement of only a minor part of preceding losses.

The recent rally (which not improbably would go further, if given the support of general market strength) was founded chiefly on two considerations: (1) Belief that the final normal and surtax rate would be much closer to the 40 per cent figure adopted by the House Ways and Means Committee than

to the Treasury's 55 per cent proposal; and (2) increased public confidence as to the probable duration of the war.

I think it probable that the 40 per cent rate will be adopted, but it is not by any means a certainty. Should it turn out to be 45 per cent, the effect would, of course, be adverse on utility securities, especially those of speculative character. The longer range tax outlook for the industry is conjectural—depending importantly upon the course of the war and the direction of the political tides when peace has been made. If it's a long, hard war, nobody can feel assured that this year's tax rates will constitute maximum for the duration. The normalsurtax rate might conceivably be lifted to 50 or 55 per cent—decidedly adverse to utilities and all other "peace stocks." On the other hand, should coming war developments support or strengthen present hopes as regards the shortened duration of the conflict, that would be favorable to utility issues; and investors and speculators would center their conjectures on at least moderate post-war tax reduction rather than further increases.

As with railroads, generalized analysis of the prospect of utility securities is impossible. They run the gamut from radically speculative equities of holding companies to operating company mortgage bonds of the highest quality. In between are a number of operating company preferred stocks of real investment merit; and even a minority of operating company equities—for instance, Consolidated Gas & Electric of Baltimore and Detroit Edison, to cite but two—which offer an attractive and assured yield on the basis of present quotations, even if very conservative allowance be made for possible dividend revisions.

So far as this year's tax prospect is concerned, one can feel fairly confident that low market prices make either adequate, or more than adequate, allowance for it. In general, we feel it is much too late in the day for complete bearishness on utility securities. Although only selected issues of the best situated operating companies can have any appeal to conservative income-investors, our advice to owners of all types of utility securities is to hold for possible better prices—even if it takes plenty

of patience. Certain of the representative, higher grade issues which we consider worthy of conservative accumulation are denoted in an accompanying table.

The prospect of holding companies is getting no brighter. Despite the war, the SEC insists on going ahead with forced integration under the "Death Sentence" law. But there are two hopes that owners of these securities can tie to: First, whatever final form the individual integrations may take, holders will almost certainly realize greater values—whether in the form of cash or exchange of securities—than can be had from open market liquidation today. This is especially true of holding company bonds and preferred stocks. Second, the problem of integration is so complicated and the time required so long that there is at least some chance of relief through a change in Washington Administration and, whether or not the law is changed, of a consequent change in SEC attitude. As was said of the Supreme Court Justices, the SEC no doubt "reads the newspapers." Bear in mind that the "Death Sentence" law for utility holding companies was passed in 1935. In other words, for seven years we have had a lot of law but very little actual integration.

Do you remember 1929, when even the relatively conservative Consolidated Edison (then Consolidated Gas) sold at 182 or more than 38 times earnings per share? Those were fantastic days. So are these. Theoretically, securities of sound operating companies—even equities—should have the characteristics of stable income investments, perhaps yielding (depending upon going money rates) from  $2\frac{1}{2}$  per cent for the best bonds to 5 or 6 per cent for the equities. The permitted return on a utility's property investment is limited by governmental regulation. What is lacking and probably will some day be had is governmental policies which, while still limiting the return to a reasonable maximum, will provide investors with much greater assurance that at least such maximum can be earned.

In short, perhaps most of us may live long enough to see the time when our public utilities will be neither the playthings of promoters and speculators nor the whipping boys of politicians.

## As Business and Markets Enter the Second Half of the Year

(Continued from page 270)

ably will be better than many imagine, but is nevertheless conjectural. The stocks must be regarded as speculative. Current prices represent a very large mark-down from earlier levels and to that extent the vulnerability has been much reduced. We consider "major trend" market prospect, as distinct from possible rallies, less bright than the market average.

**AIR TRANSPORT** — Post-war speculative possibilities good, with large growth assured. Investment status dubious. Stocks have recently had a large percentage rally. Would be vulnerable if military reverses turn thoughts to protracted war. Would advance further should peace hopes brighten.

**AUTOS & ACCESSORIES** — Investment status of the largest auto manufacturers and of some selected accessories is good. Longer range prospects of the marginal companies and heavy truck manufacturers are dubious. This industry offers excellent compromise investment and speculative choices as a "peace and war" situation. Some of the stocks have had a good recent advance and may be temporarily vulnerable. Intermediate and major trend market prospect seems above average.

**BUILDING MATERIALS** — Volume is very near maximum possible war-time level, but war earnings outlook is at least average and post-war prospect can be assumed above average. Since most shares are at low levels, near-term risk factor seems less than average. This is rarely a "market leader" group but should do as well as general market trend. Individual variations in investment and speculative quality are wide, as wide as in the auto accessory field—and thus careful selection is more essential than in most industries.

**CHEMICALS** — Longer term investment status good, with large growth from new products certain. Risk element at present prices is probably less than average, but so is probable potential for nearer term appreciation.

## PETROLEUM AT WAR



The American petroleum industry, which produces almost two-thirds of the world's oil requirements, is enlisted full-strength for the duration.

The petroleum industry is being called upon to supply practically all of the lubricants for war making, the motive power for mechanized units of the Army and Navy, and a large proportion of the fuel for factories which produce armament, planes and war machines.

It is being called upon to furnish the raw materials and build up the plants for synthetic rubber, to supply largely the constituents of explosives, and to provide in the main its own transportation of these products—all this while it is providing for current domestic needs.

It is our privilege, and a proud one, to join in the national war drive to victory.

### THE PURE OIL COMPANY • GENERAL OFFICES: CHICAGO

*Producers, Refiners, Transporters and Marketers  
of Crude Oil and Petroleum Products.*

Be sure  with Pure

**CONTAINERS** — The tin and glass container industry merits a high investment rating. War time earnings prospects are at least as good as average of non-war industries; while above average confidence attaches to post-war potentials. The stocks have risen considerably and would be perhaps vulnerable if serious war reverses should eventuate.

**ELECTRICAL EQUIPMENT** — Investment status of leading companies is good but the buyer pays a premium for it in terms of relatively high price-earnings ratios.

High volume is, of course, assured for the duration. Post-war outlook for consumer lines excellent, dubious for the normally more profitable "capital" goods. Both appreciation potentials and risk factor in the equities seem about in line with general market average.

**FARM EQUIPMENT** — Dollar sales, including arms work, will remain high for the duration of the war. Post-war volume and earnings prospect seems above average of cyclical type industries. International Harvester and Deere are not

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without investment attributes. This group is currently in gear with the general market and probably will continue so.

**FOODS**—Due to assured volume in peace or war and to earning power which normally is both substantial and relatively stable, many food stocks qualify as investments. The different branches of the industry offer wide room for investment and speculative selectivity. This year's lows probably adequately discounted war shrinkage in profits due to high taxes. Issues up sharply from the lows are not cheap on a "long war basis," but moderately priced on a "not too long deferred peace basis." On the whole, present market risk seems less than average; appreciation possibilities at least as good as average.

**BEVERAGES** — Sugar supply outlook looks better than when rationing was started. That's part of foundation for recent rally in soft drink stocks—hope of not too protracted war is the rest. The latter is conjectural. Coca Cola is the only issue with investment attributes and is not nearly as cheap as a few months ago. We are inclined to reserve judgment on the group. We think liquor stocks carry less than average risk, but also less than average promise.

**MACHINE TOOLS**—No investment or speculative appeal, as we see it. Substantial war earnings are over-shadowed by bleak post-war prospect. The same goes for heavy machinery. The stocks are depressed and can hardly be very vulnerable but appreciation promise seems limited.

**MERCHANDISING** — Investment status of selected issues is good. Earnings will be lower and volume may have passed its war peak—but "normal" potentials must be accorded weight in market values. For the war period, strong chain grocers seem to have the most favored position. From a longer range viewpoint, our choice would be J. C. Penney, the two leading mail order companies and selected variety chains. We regard appreciation potential as average, risk factor less than average. But these stocks would react to war scares, advance on peace hopes. Some may have discounted too much in the way of peace.

**METALS**—We think investment status is poor. Earnings have always been cyclical and are held to moderate limits by war taxes. Post-war earnings prospect is dubious and the situation will become more competitive due to tremendous capacity in aluminum and magnesium. Having had but slight rally, metal shares are currently less vulnerable than average but we think appreciation potential is limited.

**MOTION PICTURES**—Prospect generally good, though subject to local effects of gasoline rationing. Only Loew's has even semi-investment status. Group risk factor less than average. But prices have already had a major recovery, thus limiting further potential unless strong general market rise sets in.

**PAPER**—Investment status poor, as normal earnings record is very erratic and most equities are "leverage" situations. That's a speculative help when profit trend is up, but it's not up now and hardly will be up after the war. Volume in some branches is also currently downward, earlier "war shortage" talk having proved unfounded. Stock prices are depressed and therefore probably less vulnerable than average. Except for speculative rallics, they lack appeal.

**PETROLEUM**—Longer range investment status of the integrated companies and the stronger producing units is good, despite fact that the threat of a quasi-utility status attaches to industry under present Administration. War prospect is closely tied to the uncertain rubber tire and gasoline situation but this probably will be relieved sooner than some think and may have been adequately discounted. Regard selected stocks as carrying less than average risk, though shorter range appreciation potential seems restricted.

**UTILITIES**—Normal stability of earnings and good yield from shares of leading electric operating companies give them investment attributes. Only pertinent question is whether recent lows discounted maximum war taxes and worst of New Deal's anti-utility complex. We think they probably did. Potentials justify sitting tight on present holdings. Nearer term appreciation prospect is dubious.

**RAILROADS**—Only a couple of rails have any investment status. Earnings gains of marginal roads

will be used almost entirely to strengthen capital positions against dubious post-war outlook. That's only theoretically favorable to the equities at present. We would say risk is about average, and appreciation potential probably less than average.

**RAIL EQUIPMENT**—No investment status. War and post-war appraisal generally the same as for machine tools. Due to low prices, current risk may be less than average, but so is nearby promise.

**RUBBER**—Over the longer range, broadened markets and more stable prices for raw material—whether synthetic or natural—should improve the present none too good investment status. Current situation speculative but it is almost certain the lowest share prices have been seen.

**STEEL**—Only a very few steels with superior dividends records, have even semi-investment status. Threat of post-war over-capacity and competition from lightweight metals is quite real, but by almost any standard the share prices are very depressed. Regard market vulnerability as less than average; appreciation potential at least in line with industrial average.

**TOBACCO**—On normal status, most of these shares merit investment consideration. Their lows probably discounted the worst in tax-reduced earnings, but they have already rallied sharply. Should circumstances cause sentiment to revert to a "long war" consensus, a good part of the advance perhaps would be cancelled. Given stronger peace hopes, they would rise further. Which it is to be is conjectural in the setting at this writing.

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### Another Look At . . .

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(Continued from page 291)

tage of current prosperity to further strengthen its financial position and reduce funded obligations before any plan of recapitalization is presented. Prospects shape up favorably for continued good earnings and while the common shares obviously must be classed as speculative, they are not without a measure of promise in their price class.

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## Potential Market Leaders

(Continued from page 275)

fertilizer. Financial position is good. The 628,000 shares of no-par stock constitute the sole capitalization. Tax credit, under House Ways and Means proposals, would be about \$1.31 per share. Last year dividend distribution was \$1.45, including extra. Current rate is 30 cents quarterly, or within limits of indicated earning power under highest taxes suggested for this year. Since it is not improbable that the tentative 94 per cent excess profits tax rate will be moderated, early change in current dividend seems unlikely. Yield at current price is about 6 per cent.

As a leading producer of linseed oil, fish oil, soybean and various other vegetable oils, the Archer-Daniels-Midland company has an excellent sales prospect. Fiscal year earnings of \$5.69 per share last year can not be maintained under pending tax rise but tax credit, estimated at \$2.76 per share, is relatively favorable. Dividend last year was \$1.85 per share and two 50 cent payments made so far this year indicate \$2 rate, or well within prospective earning power. Current yield basis is around 6.6 per cent and seems reasonably secure. Aside from \$2,200,000 in long term bank loans, and sizable short-term bank loans to carry heavily expanded but readily saleable inventories, there are no obligations ahead of the 545,000 shares of common. Accompanying chart shows rising bottoms ever since the low of 1938. On the other hand, for most of the past four and a half years the stock's highs have been confined to 2-point range 33½-35½. It sold as high as 37 in 1939, against current price around 30.

Spicer Manufacturing, a leading producer of various automotive equipment, is a strong "peace or war" enterprise with a solidly established trade position. The exceptionally high earnings of recent years —\$9.42 last fiscal year—will be reduced by higher taxes, since tax credit is estimated at \$2.31. Huge volume will be a partial tax offset. Company paid \$3.25 dividends last

**The Show Must Go On!**

Unlike most industrial enterprises, gas and electric companies provide services for which the need is unceasing. Their plants, transmission and pipe lines must be built and maintained to meet peak demands at all times. Light, heat and power cannot be packaged or stored in warehouses, as is merchandise, awaiting sale. Every day new uses and new users are found.

Yet, despite enormous capital outlay thus required, these companies are constantly increasing facilities . . . helping to decentralize industry and population . . . gradually extending the benefits of modern living.

In the past decade, utilities have made great advances in efficiency and economy of production. Exemplifying this progress are plants of larger capacity, with interconnections to stabilize their load, expand their radius and assure continuity of their service.

**COLUMBIA GAS & ELECTRIC CORPORATION**

**COLUMBIA SYSTEM**

year and \$2 so far this year. Future rate is subject to some doubt, depending importantly on final tax provisions. Financial position is strong but working capital needs are large. Capitalization consists of \$1,000,000 in funded debt, 70,000 shares of \$3 preferred and 300,000 shares of common. Chart shows persistently rising bottoms since the low of 1938, with the tops since 1939 between 37 and 38½, against current price of 34. As with all good automotive equities, "normal" peacetime potentiality is accorded considerable weight in market valuation.

Unusual thing about market action of International Salt is that it recorded successively higher prices in each of the years 1938-1941, as well as higher bottoms in each year except 1940. At current price of 41 the issue does not "look" cheap on estimated tax credit of \$2.10, but company is favored by expanding markets and relative resistance of earning power to business-cycle declines is characteristic. Hence it is not without conservative investment appeal. Aside from \$2,900,000 funded debt, capitalization is only 240,000 shares of common. Dividend was \$3

last year and \$2.50 in 1940. Continuance of \$3 rate can not be considered assured.

Chart of Alpa Portland Cement shows rising lows since the spring of 1940, but top range of 18-21 over the past four and a half years, as compared with present price of 17 $\frac{3}{4}$ . Lows this year and last were, respectively, 14 $\frac{3}{4}$  and 14 $\frac{1}{2}$ , against 11 in 1940. On a chart basis, as well as tax credit estimated at \$1.29, potentiality of advance above current price appears somewhat restricted. Company paid \$2 dividend in 1940, with dividends so far this year at rate of 25 cents quarterly.

Tennessee Corporation, a fertilizer, chemical and copper producer, made lows of 3 $\frac{7}{8}$ , 4 and 4 $\frac{1}{4}$  respectively, for 1938, 1939 and 1940—with bottom lifted to 6 last year and 7 $\frac{1}{2}$  thus far this year. Rise in earnings to \$1.60 per share last year, against \$1.36 in 1940 and average of but little over 40 cents in 1938-1939, has been reflected more in rising bottoms than in the highs. Top range for four and a half years has been 8-9 $\frac{3}{8}$ , against current price of 8 $\frac{1}{8}$ . Current dividend is at \$1 rate, or almost exactly equal to estimated tax credit.

It is worth noting that of all these stocks showing relatively favorable longer-range technical patterns, none is an outright "war stock."

### As I See It!

(Continued from page 265)

necessary for her to conquer China in order to secure the objectives which are, (1) Destroy the air bases from which the Japanese Islands can be bombed; (2) Protect her sea lanes to insure a free flow of goods and men between the Japanese Islands and the conquered countries; (3) To prevent China from receiving supplies.

This has practically been accomplished excepting for limited amounts of supplies from India and Russia and what is flown in by the United States. The trickle from India Japan hopes to shut off painlessly since she believes the situation can be solved without having to resort to arms. And she's not quite ready for Russia.

Free to turn in our direction Japan tackled several related problems simultaneously:

(1) The attack on Midway was to remove an air threat, clear the Pacific of lease-lend aid and establish a stepping stone to Hawaii from which she hopes to attack the United States when she is ready.

(2) The Aleutians—(a) to remove another serious threat for bombing her homeland—(b) to establish bases for a program of infiltration into Alaska—(c) to erect a barrier between the United States and Russia, and as a jumping off place to seize Kamchatka which next to Vladivostok holds the greatest menace from the air.

Both the Nazis and the Japs have gambled heavily to secure their objectives and they have won by their daring, resourcefulness, and because they have always taken the initiative. These are characteristics which are native to the American temperament. And if this war is to be won we must lead the English—who do not incline that way,—rather than be led by them.

Mr. Churchill, much as we like him and able as he is, lacks the quality of military leadership. Even today, despite the fact that Britain is fully prepared for a second front and that men like Lord Beaverbrook who ought to know the truth are clamoring for it, Churchill apparently still wishes to hold back. And yet it must be self-evident that to permit the Nazis to expand into Africa and entrench themselves strongly would free them to besiege and blockade the British Isles, already on a stringent food rationing basis.

Under these circumstances our shipping losses in the Atlantic would be greatly multiplied. Britain might not be able to hold out and the United States would be left fighting a war on at least two fronts—the Atlantic and the Pacific. For the Japanese, under such conditions, would be bombing our West coast from Alaskan bases established by the same infiltration process she employed in Malaya.

In reviewing the war thus far it is very clear that Britain does not possess the kind of military leadership capable of coping with this great crisis. The United States has shown up very well in the short period we have been at war. News

from every corner of the globe tells us that the American fighting man is living up to our tradition for valor, audacity and ingenuity. We have performed miracles in the field of production. If we take the lead I believe we will perform miracles also in the conduct of this war.

### Postscript

From a political standpoint a Nazi victory in Africa, Russia or both is bound to bring strong peace proposals from Germany, who would like to solve the problems which threaten her economy if Japan should remain in control of the resources and manpower of the Far East. She would like to solve this problem before Japan is too firmly entrenched in her new possessions and difficult to dislodge. And she would much prefer to have control of the Far East herself or to see the British and the Dutch have it. She would like Russia, India and China on her side in a tussle with Japan. In view of the fact that there is a group in England and in other Allied nations who have always inclined toward Hitler and Fascism and who would like to accept such an offer, we may expect a flood of propaganda along these lines. This will make the next two months very critical.

### New Age in the Air

(Continued from page 283)

cargo plane—the Douglas B-19—can carry a pay load of 20 tons, or as much as a freight car. And planes several times bigger than the B-19, have been designed by American aviation companies merely waiting for the green light.

Admittedly these pay loads are small compared with the 6,000 or 7,000 tons of cargo carried by ships, but flying at 250 to 300 miles an hour over a direct route to the Near East the plane might make 20 round trips to New York while the ship was plodding around the Cape of Good Hope and back again. On that basis it would only take 15 of the big Douglas cargo planes to equal one good-sized ship.

Most of the information in this article to this point can be considered as fait accompli. With such a background of accomplishment in such a brief span of years, it is not overly difficult to visualize what will be accomplished in the not too distant future. The Budd Engineering Company of Philadelphia has announced it is preparing for the construction of the first cargo plane specifically designated as such. The plane is to be built of stainless steel instead of aluminum, according to William Barclay Harding, vice-president of the Defense Supplies Corporation.

Colonel George S. Brady, chief of the materials statistics division, Office of Imports of the Board of Economic Warfare, predicted a vast world-wide system of mail, express and aerial freight transportation sufficient to keep busy every airplane plant in the country after the war. He tied up this development with that of the aluminum industry.

To view the reverse of the medal it is interesting to note that leaders in the shipping industry reject a prediction recently made by Grover Loening, aeronautical engineer, that airplanes would replace ocean passenger liners and freighters as a result of aviation developments in the war. Most of the shipping men insist Mr. Loening's views are "entirely out of focus." They insist the idea is impractical. However, when Cunard-White Star admitted the need to add airplanes to their fleet of steamships; when the Grace Line and the American Export Line, have already gone into the airplane game; and when most shipping men admit that the airplane will supplement or complement seaborne freight and passengers, it is easy to recognize that no shipping man would willingly admit that he is going to be "put out of business" by "upstarts" flying above the clouds, anymore than the livery stable man of 1898 would admit the automobile is "here to stay."

In his prediction Mr. Loening said that 40,000 of the present Douglas B-19 planes, with a useful load of 20-tons, could replace all the ships now in the United Nations pool, "with an aggregate cargo capacity of 20,000,000 tons."

When one considers the economics of the situation one cannot help but agree with the shipping men, at least as concerns the next three to



"We shall win . . . or we shall die!"

—General Douglas MacArthur

To paraphrase General MacArthur's fighting words—

We must win this war on every front, industrial as well as battle, if we are to survive.

In that spirit, the American Gas and Electric Company systems have made extraordinary efforts to supply electric service to war industries within the territory they serve.

The increased demands on our systems occasioned primarily by war industries have necessitated an enormous expansion of power generating and transmission facilities.

In 1918, at the peak of the first World War effort, the territory now served by the American Gas and Electric Company systems contained 91 plants with a combined generating capacity of 373,000 kilowatts.

The total generating capacity installed on the systems since the beginning of World War II in September, 1939, and to be installed within the next year, is 491,500 kilowatts.

With the installation of these extensions, all of which are now completed or under construction, the system capacity will be 1,828,000 kilowatts, of which over 86 per cent will be in 12 major plants. Approximately 5 times the entire system capacity as it existed in the last war!

Our man power and facilities are dedicated to help in the production of implements of war that will bring VICTORY.

## AMERICAN GAS & ELECTRIC CO.

five years. Cost of speedy airborne freight would be far out of line with the rates charged by steamship companies. And it must be remembered that a large volume of ocean borne shipping is non-perishable, heavy merchandise with time the least important factor. I speak now of normal peace times. Air express at present is confined to urgent freight and probably, in the future, will replace many of the refrigerator ships and refrigerators cars to haul fresh fruit. It would be possible to pick fruit in the Argentine or Chile and serve it for breakfast here 36 hours later. But, as Robert C. Lee, vice-president of Moore-McCormack Lines and National president of the Propeller Club, pointed out "the picture of a cargo of 8,000 tons of Brazilian coffee picked up at a terrific cost by a fleet of airplanes in Rio and transported to a distribution center in, say, Milwaukee, leaves the shipping man's blood pressure just where it was.

"Even now the railroads cannot compete with sea shipping between the Atlantic and Pacific coasts. You can double air development for the

generation to come, or quadruple it, and not even then can we foresee the competition. It is a question of old fashioned mathematics, which is still in effect today despite scientific advances."

This contention, shipping men admit, does not apply to passenger travel. They expect many passengers to use the air for speedy travel in the years to come.

There you have both sides of the argument, with considerable merit to both.

For those who hold shares in air transportation companies or aircraft manufacturers or in light metals, it is well to consider that no sudden flood of dollars is going to be tapped and phenomenal rises in prices take place. The business of building airplanes and of using them commercially is a long range business. It was and is sired by men who have vision and look far ahead. It is no place for the impatient soul who wants quick action; speedy profits and sharp turnovers. The business of American aviation is not that type.

The world system of transporta-

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**... 1½ Points Loss  
Taken At Recent Peak**

On June 9th, at the intermediate top of the market's upsurge, we telegraphed our subscribers to accept profits on short term commitments advised May 12th. Held less than one month, available profits were 12½ points with only 1½ points loss.

This is an illustration of how we counsel taking advantage of intermittent market movements. Short term positions are kept flexible through our definite advices of what and when to buy and when to sell.

## 6 Selected Stocks for Short Term Profits To Be Bought on Recessions

### Trading Advices

- Leading company in important industry in war and peace. Price 46½.
- Vital low cost material producer operating at capacity. Price 24.

### Bargain Indicator

- Widely regarded as foremost company in basic industry. Price 37.
- Special situation with vast possibilities not generally realized. Price 18½.

### Unusual Opportunities

- Diversified manufacturer of essential products in today's economy. Price 17½.
- Leader in its field in strong position with arms orders at record level. Price 19.

tion will not be revolutionized. The mere fact that airplanes will play a dominant role in world transportation does NOT mean finis to present modes of transportation. It is beyond the realm of probability to predict that many railroads will acquire air lines, as the steamship people are doing, to run in conjunction with their surface transportation.

Yes, the airplane is here to stay. The giant air freighter and air liner of today is the parent of an even greater giant of the airways for tomorrow.

### Wisest Investment Program Today

(Continued from page 273)

the income investor's capital should be allotted to common stocks—a third would be more conservative at this time—with the balance distributed among fixed income securities—bonds and preferred stocks.

The best grade corporate bonds are obtainable only on a low yield basis. If circumstances require maximum security, War Bonds, as already pointed out, are the best bet. If requirements call for a higher return than 3 per cent, the choice of issues must be drawn from second and medium grade securities. Many of these issues, however, are currently accorded better-than-average earnings protection and at least as a temporary expedient are worthy of consideration on an income basis.

The choice of high yielding issues among preferred stocks is much broader than in the case of medium grade bonds. By the same token, the need for greater care in selection is implied. Whereas bonds occupy a sheltered position from the standpoint of taxes, fixed charges being treated as an expense and therefore deductible before taxes, preferred stock dividends are payable out of earnings after normal and surtaxes. Obviously, the degree of earnings coverage afforded preferred dividends would be adversely affected by higher taxes.

In the original Treasury proposals an increase in the surtax to 31 per cent was advocated. This would have meant a total normal and surtax of 55 per cent, compared with 40 per cent proposed by the House Ways and Means Committee. Fol-



Although small arms, anti-aircraft guns, etc. are fed with cartridges, "big guns" are loaded with steel projectiles and separate charges. The projectiles, whether fixed to the shell or separate, would not fulfill their mission were it not for the copper, bronze or copper-nickel rotating bands, or "driving bands", with which they are fitted. These bands are sufficiently ductile to engage the barrel's rifling, causing rotation of the projectile to promote accuracy. The bands

form a seal against the escape of explosive gases, preventing loss of velocity.

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lowing the Treasury proposals, values of many preferred stocks suffered a sharp decline. This was particularly true of public utility preferreds, dividends on which in not a few instances would not have been earned if the Treasury proposals were adopted. Subsequently, it was revealed that Congress appeared more willing to support the lower rate proposed by the House and preferred stock prices recovered somewhat from their lows. On the assumption that the normal and surtax rate will not be increased above

the 40 per cent figure, most preferred stock issues will continue to be afforded adequate earnings protection. The probabilities are, however, that the factor of taxes will have the effect of lowering the price ceiling on preferred stocks as a whole, with a corresponding increase in the average yield. For the investor seeking income, preferred stocks offer yields ranging from 1 to 3 per cent higher than those on bonds of comparable quality, which is in the nature of compensation for their wider market swings.

Preferred stocks likewise offer a haven for the common stock investor faced with heavier dividend casualties than his requirements will permit.

Accompanying this discussion are lists of selected bonds, preferred and common stocks which are regarded as qualifying for the purposes indicated. These lists are interchangeable, depending upon the requirements of the individual and are representative, rather than inclusive. Conceivably the same issue might appeal both to the income investor as well as the investor seeking price appreciation. Results in both cases could be equally satisfactory.

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## Electric Equipments in War

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(Continued from page 289)

only rose 5 per cent.

To handle this vast amount of increased business required a huge construction program. By the end of 1941 General Electric alone completed 14 new buildings, as well as a large number of additions to existing factories. The company added approximately 3,500,000 square feet of floor space to its existing manufacturing facilities. These constructions and the necessary equipment cost in excess of \$100,000,000, part of which came from government sources. Westinghouse also had a heavy construction program, the most important of which were a plant for the manufacture of steam turbines and another used exclusively to produce ordnance for the armed forces. Other companies engaged in similar programs.

It definitely can be said that by far the greatest task confronting any of the principal electrical manufacturers has been the building of steam turbines and other propulsion equipment for the new Navy and Merchant Marine. General Electric, Westinghouse and Allis-Chalmers have millions of dollars of such orders on their books.

By the end of 1941 General Electric alone had under construction about 2,500,000 kilowatts of large turbine-generator sets; more than one million kilowatts of hydroelectric generators in production, and about 9,000,000 horsepower in tur-

bines for propulsion equipment of ships in the course of construction. Despite this excellent rate of production for such equipment — the greatest by far in the history of the industry — the supply lagged considerably behind the nation's demands.

Lack of shipping, marine shipping particularly, has been the greatest bottleneck in the war effort; but one of the reasons the shipbuilding program has been unable to keep up with enemy sinkings and increased demands is the inadequate supply of propulsion equipment and reduction gears. These huge gears receive the power from turbines at high speed and reduce it to the most efficient speed for turning the ships' propellers. To meet this situation, in part at least, new machinery was installed last year which accelerated production, but the supply is still less than the demand and, unless something unforeseen occurs, will continue to lag.

The war has done another thing for the electrical equipment industry; it has proved to be a great incentive to research. Research technicians at the General Electric laboratories have produced the turbo-supercharger which makes it possible for airplanes to fly into the stratosphere. Engineers in Europe have been using a mechanical supercharger geared to the engine to feed the required amount of air into the airplane's engine. General Electric developed a supercharger operated on the exhaust from the engine which proved immeasurably more efficient. This research resulted in a piece of apparatus which could operate with the blades of the turbine in heat that would melt ordinary metal, while the outside temperature might be far below zero Fahrenheit. This has proved to be of great value to our air force.

Another major development in the electrical equipment field brought about by the war has been in the field of electrical welding. By means of electrical welding speed in construction has been produced while cost has been lowered. Up to about ten years ago electrical welding was used primarily for patch-up and repair jobs, and only recently has it assumed a place of major importance. Its biggest growth is the direct result of the war.

In ships, tanks, airplanes, guns

and countless other war needs, production rates are being boosted and costs are being lowered by welding.

While the electrical equipment industry has had to "shelve" for the duration the manufacturing of non-essential appliances the research laboratories have not ceased devoting a portion of their attention to this lucrative field. As soon as the war ends and the barriers are lowered it is expected that newer and greatly improved appliances will be produced in large quantities to fill the needs brought about by a lack of such products. New materials, lighter, stronger and more cheaply constructed are expected to play a major role in this post-war business.

The extension of electrification into the rural and outlying districts expected to be a part of the war effort as well as the post-war effort and the development of huge foreign markets covered to a large extent before 1939 by German electrical manufacturers will provide additional customers for American manufacturers.

Speaking of the present there is no reason why the major electrical equipment companies should not continue to show relatively good earnings for the balance of this year despite rising taxes.

The huge military and industrial orders on the books will continually lift production volumes despite the restriction on civilian goods. On the other hand, the outlook even for the hard-hit appliance companies is not overly-somber. Their facilities are being largely converted to war work in line with the larger and more diversified firms. Radio manufacturers, for example, are to receive military contracts totaling around \$2,000,000,000 to offset loss of civilian business, and washing machine manufacturers will switch to the large scale production of searchlights and other war equipment.

While profit margins on military orders are in general somewhat narrower than on peacetime business, particularly in the case of household appliances, there will still be profits to share—although perhaps not on as generous a basis as in 1941.

Therefore, we can conclude that despite rising taxes, lower individual profits and other abnormal factors the leading electrical equipment companies should find 1942 a relatively good year.

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